



HM Treasury

# **SPENDING REVIEW AND AUTUMN STATEMENT 2015**

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# SPENDING REVIEW AND AUTUMN STATEMENT 2015

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

November 2015

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# Executive Summary

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The first duty of government is to protect economic and national security, thereby allowing the government to extend opportunity for working people at every stage of their lives. The Spending Review and Autumn Statement delivers on that priority. It sets out a long term economic plan to fix the public finances, return the country to surplus and run a healthy economy that starts to pay down its debt. Debt is projected to fall in every year of this Parliament as a share of GDP and the surplus is forecast to reach £10 billion by 2019-20.

Over the last Parliament the country made huge progress in rescuing the economy. Now the task is to rebuild it. The Spending Review and Autumn Statement announces how the government will build on that progress while embarking on an ambitious plan to reform public services and devolve more power than ever before. Across the Spending Review period day to day departmental spending will fall on average at less than half the rate of the preceding 5 years.

Compared to Summer Budget 2015, the Office for Budget Responsibility now forecasts higher tax receipts and lower debt interest, with a £27 billion improvement in the public finances. This means that, while the Spending Review and Autumn Statement includes difficult decisions to ensure Britain lives within its means, it has been possible to borrow less, invest more and smooth the path of consolidation. By ensuring Britain's long term economic security, the government is able to spend £4 trillion on its priorities and will take action to:

- protect the UK's national security by investing in defence, policing, intelligence, counter terrorism, cyber security and international aid, protecting British citizens at home and projecting British influence abroad
- provide opportunity for families through higher wages, lower taxes and lower welfare, saving £12 billion on welfare bills by 2019-20
- prioritise the integration of the National Health Service and social care, spending £120 billion a year by 2020-21 to create a 7 day NHS and introducing a new social care precept
- invest in Britain's future by providing education from childcare to college, with real terms protection for schools funding and paying for apprentices through an apprenticeship levy
- deliver a devolution revolution by returning power to the UK's nations, cities and councils and rebalancing our economy, giving people greater control over the decisions that affect their lives
- double investment in housing to support home ownership, while also investing in the transport, science, energy and culture that are vital for the country's long term economic future
- reform and modernise public services, from prisons and court rooms to the UK tax system, making citizens' lives easier and offering a better deal for taxpayers

## Economic and fiscal forecast

The Office for Budget Responsibility (OBR) now forecasts GDP growth of 2.4% in 2015, 2.4% in 2016 and 2.5% in 2017. It forecasts employment to be 31.1 million in 2015, rising each year to 32.2 million in 2020. CPI inflation is forecast to be below the 2.0% inflation target in 2015, returning gradually to 2.0% in 2019.

Public sector net borrowing is forecast to fall to 3.9% of GDP in 2015-16 and then to fall each year for the remainder of the forecast period. The OBR forecasts that the public finances will return a surplus of £10.1 billion in 2019-20 and £14.7 billion in 2020-21. Public sector net debt is forecast to fall each year reaching 71.3% of GDP in 2020-21.

## Entrenching economic security

The government's long term economic plan is securing the recovery. Since 2010, on average, the UK has been the joint fastest growing economy in the G7.

But with debt at the highest share of GDP since the late 1960s, risks remain and the job is not complete. The Spending Review and Autumn Statement sets out how the government will cut the forecast deficit by three quarters by 2016-17 from its peak, eliminate it altogether by 2019-20 and deliver a £10.1 billion surplus. This puts Britain in its strongest position for almost half a century, ensuring it can begin to reduce its debts. This will mean that Britain is better prepared for future shocks, ensuring long term economic security.

## Protecting Britain's national security

The first duty of government is to ensure the economic and national security of the country. Protecting the UK national interest means strengthening capabilities at home while projecting our influence abroad, ensuring Britain plays a leading role in shaping a more stable, secure and prosperous world. The Spending Review funds the Strategic Defence and Security Review in full and:

- protects police spending in real terms over the Spending Review period to maintain strong frontline policing and further strengthen police firearms resource to protect UK citizens
- commits to meeting the NATO investment pledge to spend 2% of GDP on defence for the rest of this decade
- allocates an additional £3.5 billion to a Joint Security Fund to 2021 to increase spending on the military and intelligence agencies
- invests £1.9 billion in cyber security and £3.4 billion in new counter terrorism activity, in response to changing threats
- cements the UK's position as the only G20 country to spend 0.7% of national income on overseas aid, with a refocused budget that will be even more effective in eliminating poverty and also advancing the UK's national interest
- maintains the country's diplomatic network overseas and invests £290 million in the BBC World Service to strengthen democratic accountability, governance, and the soft power and influence of the UK
- creates a new £1.3 billion Prosperity Fund to assist the growth of emerging and developing economies

## A sustainable health and social care system

The government has chosen to invest £120 billion a year by 2020-21 to protect the position of the NHS as a world class health system, and will drive forward ambitious plans to integrate health and social care services by 2020. The Spending Review:

- provides the NHS in England £10 billion per annum more in real terms by 2020-21 than in 2014-15, with £6 billion a year available by the first year so that the NHS' own Five Year Forward View is fully funded enabling it to deliver services 7 days a week
- enables universities to provide up to 10,000 additional nursing training places this Parliament by replacing direct funding with loans
- gives local councils the power to increase social care funding through a new 2% Council Tax precept
- lays out a radical, local-led plan to create an integrated health and social care system by 2020, backed by an extra £1.5 billion in the Better Care Fund through local authorities
- invests over £5 billion in health research and development, as well as up to £150 million to launch a Dementia Institute and a new £1 billion Ross Fund, partnered by the Bill and Melinda Gates Foundation

## Opportunity and security for families

The government will provide opportunity for working people through higher wages, lower taxes and lower welfare, and support them in retirement through the triple lock on pensions. The government is taking action to reward work and aspiration, reduce bills for households and support first time buyers in securing their own home. The Spending Review and Autumn Statement:

- gives working families on tax credits longer to adjust to the transition to a higher wage, lower tax, lower welfare society, takes further steps to ensure fairness in the Housing Benefit system, and ensures that reforms to welfare will save £12 billion a year by 2019-20
- sets out a five point plan for housing, including delivering 400,000 affordable housing starts by 2020-21, focussed on low cost home ownership and reforms to the planning system to free up land for homes
- supports families buying their own home through a 3 percentage point surcharge on rates of Stamp Duty Land Tax on purchases of additional properties like buy to lets and second homes
- takes an average of £30 off projected household energy bills from 2017 by reducing levies and reduces motor insurance costs by ending the right to cash compensation for minor whiplash claims
- confirms that the basic State Pension will once again be increased by the triple lock to £119.30 a week from April 2016 and sets the rate of the new single tier pension at £155.65 a week

## Investing in Britain's future

Because the government is taking the difficult decisions to fix Britain's finances, it can afford to prioritise investment in Britain's long term future: in education, skills, infrastructure and science. The Spending Review and Autumn Statement:

- prioritises investment in education from childcare to college, protects schools funding in real terms, and introduces a fairer new national funding formula for schools
- announces that the apprenticeship levy will be introduced in April 2017 at a rate of 0.5% of an employer's payroll, to deliver 3 million apprenticeship starts by 2020

- ensures the UK remains a world leader in science and research by investing £6.9 billion in capital and by protecting today's £4.7 billion resource funding in real terms
- sets out how the government will invest over £100 billion in infrastructure and extends the availability of the £40 billion UK Guarantees Scheme to March 2021
- increases transport investment by 50% to £61 billion over the Parliament – including starting construction on High Speed 2, spending £13.4 billion on the Roads Investment Strategy and over £5 billion on roads maintenance
- doubles spend on energy innovation and invests £250 million in an ambitious nuclear research and development programme
- delivers refocused export and investment promotion activity to support more exports and other business opportunities for British firms
- ensures that the arts, national museums and galleries have their funding protected in cash terms until 2019-20

## A devolution revolution

The government is committed to the Northern Powerhouse and devolving unprecedented power across the country to give people control over decisions that affect their local communities. The Spending Review and Autumn Statement:

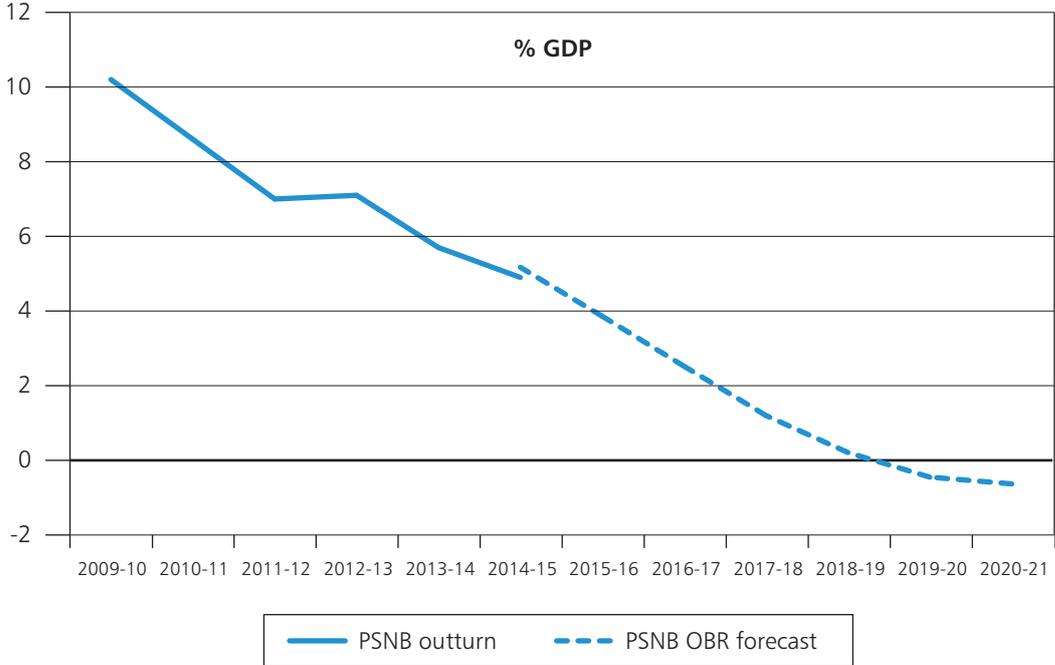
- transforms local government, enabling it to be self-sufficient by the end of the Parliament by paving the way for 100% business rate retention, giving councils the power to cut business rates to boost growth, and empowering elected city-wide mayors
- builds the Northern Powerhouse, including by investing £13 billion on transport in the North over this Parliament, backing innovative businesses with a range of investments in world-class scientific research, and supporting further Northern Powerhouse trade missions to key emerging economies
- demonstrates momentum on devolution to Scotland, Wales and Northern Ireland, including through a commitment to a relative funding floor for the Welsh Government and in principle to an investment fund for the Cardiff region.

# A modern and reformed state

Building on the progress made over the last Parliament in public services, the government will introduce far-reaching reforms to create a more productive state, fit for the modern world. The Spending Review and Autumn Statement is taking action to:

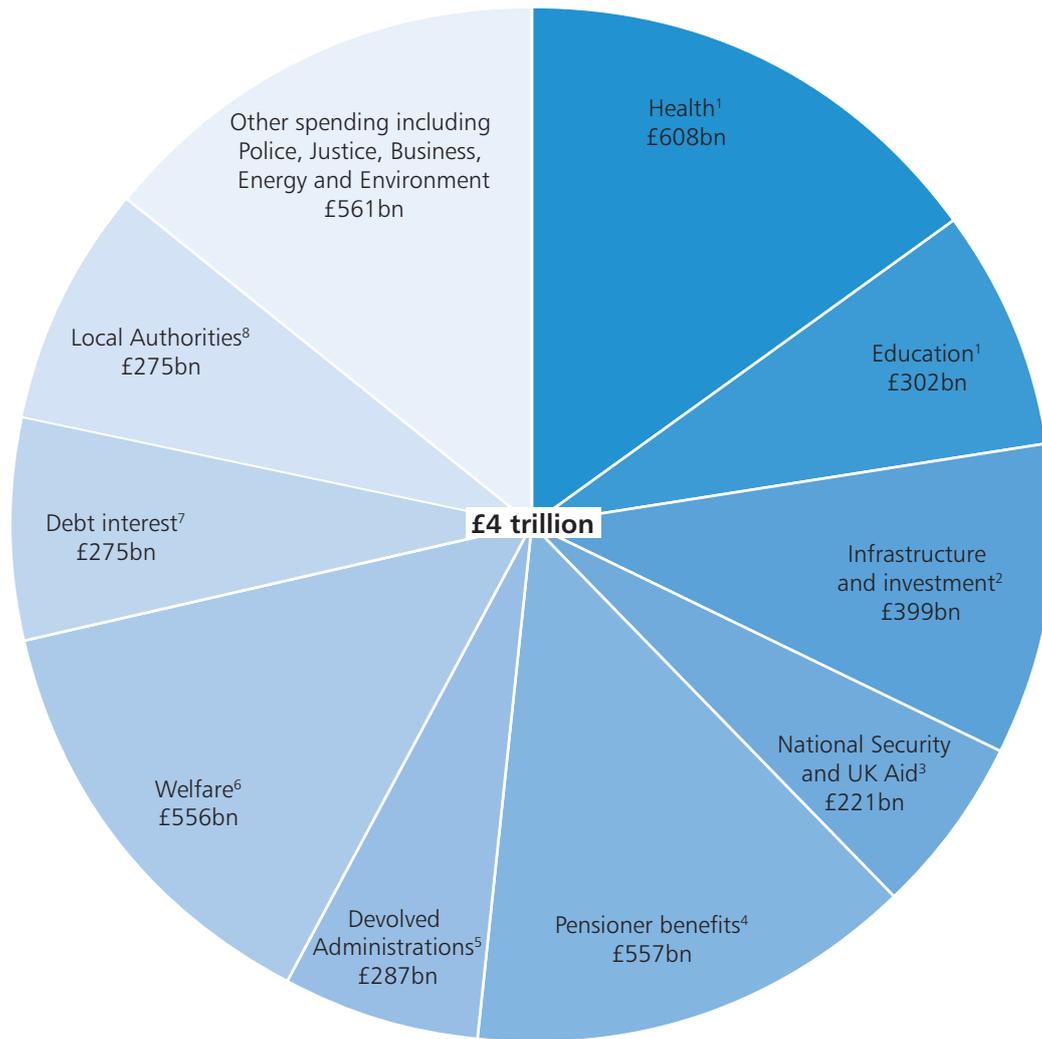
- reform the prison estate by building 9 new prisons that are cheaper to run and better tailored to reduce reoffending, and invest in new technology to support rehabilitation
- invest a total of £700 million to modernise the courts and tribunals system, speed up justice and deliver savings of £200 million a year from 2019-20
- make the government simple to deal with by investing £1.8 billion in digital transformation, replacing tax returns with digital tax accounts, and building one simple payment mechanism for all central government services
- sell £4.5 billion worth of government land and property, creating space for more than 160,000 new homes, and implement a new commercial approach to land and property management

**Chart 1: Government borrowing as a % of GDP falling in every year of the forecast, with the deficit eliminated by 2019-20**



*Outturn series (2009-10 to 2014-15) is published ONS data which does not include Housing Associations. Forecast series (2014-15 to 2020-21) is from OBR November 2015 Economic and fiscal outlook and includes Housing Associations. Source: Office for National Statistics and Office for Budget Responsibility.*

**Chart 2: Breakdown of total public spending: 2016-17 to 2020-21**



<sup>1</sup> Department for Health/Education spending only (excluding capital spending). As the SR does not include an RDEL settlement for DfE in 2020-21 a stylised assumption has been used, constant in real terms. Also includes health and education net public service pensions AME.

<sup>2</sup> Total public sector capital spending including central government, local government, devolved administrations and public corporations. On this basis, no other segment in this table includes capital spending.

<sup>3</sup> Ministry of Defence (inc pensions AME), Single Intelligence Account and Department for International Development.

<sup>4</sup> Including OBR forecast for the State Pension, Attendance Allowance, Winter Fuel Payment and Pension Credit.

<sup>5</sup> Includes resource spending in the DEL block grants, resource local authority self-financed expenditure in Scotland, Wales and Northern Ireland, and public sector pensions in AME.

<sup>6</sup> OBR social security forecasts, minus pensioner benefits

<sup>7</sup> OBR forecast for gross central government debt interest

<sup>8</sup> OBR forecast for resource Local Authority self-financed expenditure (excluding self-financed expenditure in Scotland, Wales and Northern Ireland), DCLG grant funding, pensions and current VAT refunds only. Does not include grants from other central government departments.

# 1

# Spending Review and Autumn Statement

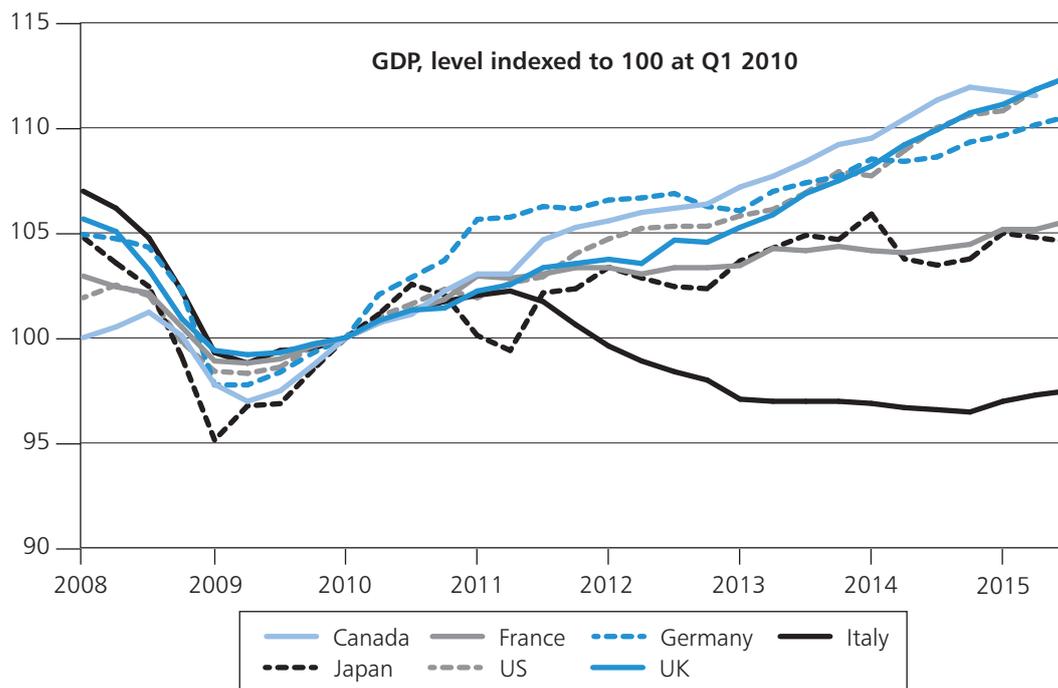
## The UK economy and public finances

### UK economy

**1.1** The government's long-term economic plan is securing the recovery. Fiscal responsibility has allowed monetary activism to support demand in the economy, alongside repair of the financial sector. The government has undertaken supply-side reforms to deliver sustainable increases in standards of living.

**1.2** The UK's economic recovery is well established. Since 2010, on average, the UK has been the joint fastest growing economy in the G7.<sup>1</sup>

**Chart 1.1: International comparison of GDP**



Source: Organisation for Economic Co-operation and Development, US Bureau of Economic Analysis.

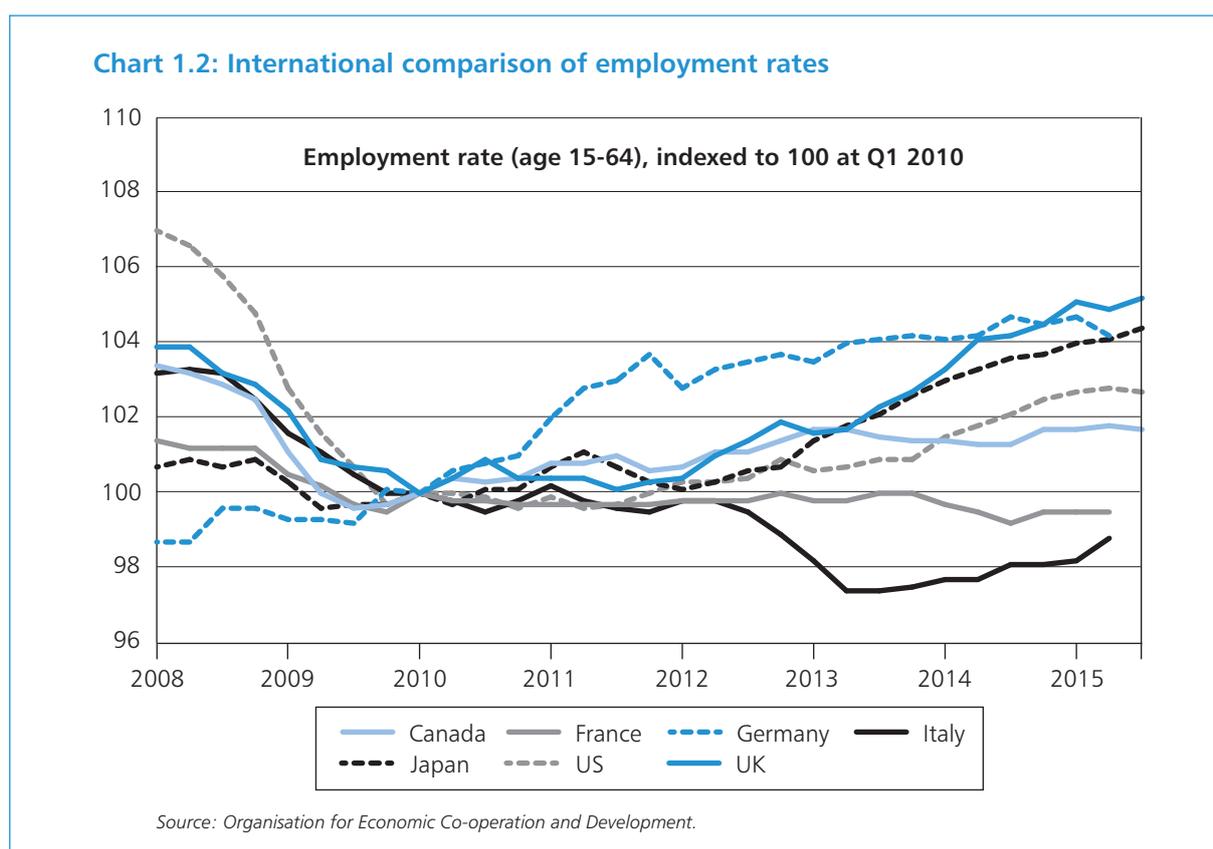
<sup>1</sup> 'Quarterly National Accounts', Organisation for Economic Co-operation and Development (OECD) and US Bureau of Economic Analysis, November 2015.

# Employment and earnings

## Employment

**1.3** The UK's labour market performance continues to be strong, underpinned by the government's policies to support working people. Improvements in the labour market are broad-based, demonstrated by:

- the employment level hitting a record high of 31.2 million in the 3 months to September, representing over 2.1 million more people in work since the 3 months to April 2010<sup>2</sup>
- a record employment rate of 73.7% in the 3 months to September
- the increase in employment over the last year being driven by full-time employees and high or medium skilled occupations<sup>3</sup>
- the female employment rate being at a record high, with around 975,000 more women in work since the 3 months to April 2010
- vacancies at a near record level of 736,000 in the 3 months to October, demonstrating a strong demand for labour
- over 5.5 jobs created in the private sector for every public sector job lost between Q1 2010 and Q2 2015



**1.4** The UK labour market has performed well compared to other major advanced economies. Since Q1 2010 the UK employment rate grew more than in any other G7 country and employment has increased by more in the UK than the rest of the European Union (EU) combined.<sup>4</sup>

<sup>2</sup> All UK economy data from Office for National Statistics (ONS) unless otherwise stated. Further detail can be found in 'Spending Review and Autumn Statement 2015 Data Sources'.

<sup>3</sup> High and medium-skilled occupations as defined in 'Economic Review', ONS, December 2014.

<sup>4</sup> 'Short-Term Labour Market Statistics', OECD, November 2015.

**1.5** The government is committed to supporting those returning to work. In the 3 months to September, the unemployment rate fell to 5.3%, the lowest rate in 7 years. Over the last year, more than 80% of the fall in unemployment was due to the decline in long-term unemployment. Youth unemployment, those aged 16 to 24 years, fell by 83,000 on the year.

## Earnings

**1.6** Real wages are growing at rates not seen since before the recession. Nominal wages increased by 3.0% on the year in the 3 months to September, while real earnings grew by 2.9% over the same period. Low inflation, driven by falls in food and fuel prices, has helped support family incomes and household budgets. The Office for Budget Responsibility (OBR) forecasts nominal earnings growth to continue to outstrip inflation, reaching an annual growth of 3.9% by 2020 as inflation returns to target.<sup>5</sup>

**1.7** Living standards were directly affected by the financial crisis. In 2015, Real Household Disposable Income (RHDI) per capita is forecast to be higher than in 2008 and to grow at its fastest rate since 2001.<sup>6</sup>

**1.8** Workers currently on the National Minimum Wage (NMW) and benefiting from the introduction of the government's National Living Wage (NLW) are expected to see their wages rise by around 40% over the next 5 years, the biggest increase over a 5-year period since the introduction of the NMW. The number of people benefitting is also greater than ever before.<sup>7</sup> 2.75 million low wage workers are expected to benefit directly, and the OBR forecasts up to 6 million could see a pay rise as a result of a ripple effect causing pay to rise further up the earnings distribution.

## UK's productivity challenge

**1.9** Sustained improvements in productivity are critical to delivering long-term economic growth and a continued increase in living standards. UK productivity has for decades lagged behind other major economies and in 2014 output per hour remained 20 percentage points below the G7 average.<sup>8</sup> Recent data has shown encouraging signs, with output per hour growing 0.9% in Q2 2015 and 0.6% in Q3 2015.<sup>9</sup> In July, the government set out comprehensive reforms to support productivity growth.<sup>10</sup> This Spending Review and Autumn Statement contains further steps to invest in infrastructure, skills and science.

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<sup>5</sup> All forecasts refer to the Office for Budget Responsibility (OBR) 'Economic and fiscal outlook', November 2015, unless otherwise stated.

<sup>6</sup> RHDI is a comprehensive measure of living standards which takes into account: employment levels, the effects of tax and benefits, as well as inflation.

<sup>7</sup> Historic estimates of numbers of NMW employees from Low Pay Commission analysis of Annual Survey of Hours and Earnings data. Estimates of number of beneficiaries of the NLW as set out in 'Economic and fiscal outlook', OBR, November 2015.

<sup>8</sup> 'International Comparisons of Productivity – First Estimates, 2014', ONS, September 2015.

<sup>9</sup> Implied productivity per hour in Q3 2015 is the change in GVA net the change in number of hours worked for Q3.

<sup>10</sup> 'Fixing the foundations: creating a more prosperous nation', HM Treasury, July 2015.

## Rebalancing the UK economy

### Regional rebalancing

**1.10** The government has a bold plan to rebalance the economy and strengthen every part of the UK, building up the Northern Powerhouse and investing across the country.

**1.11** The plan is working. Outside London and the South East, the number of private sector jobs increased by 1.6 million between Q1 2010 and Q1 2015, and there were over half a million more businesses at the start of 2015 than at the beginning of 2010.<sup>11</sup> In the north alone, there are over 328,000 more people in work than in the 3 months to April 2010.<sup>12</sup>

**1.12** A crucial part of the government's plan is to devolve powers on transport, skills and business rates to local leaders enabling them to make the decisions which drive growth, attract investment and create jobs.

### Sectoral rebalancing

**1.13** The government is committed to strong, sustainable and balanced growth. Business investment continues to grow and is now 5.1% higher than its pre-crisis peak, while gross fixed capital formation has increased by 21.4% since the start of 2010. The manufacturing, construction and service sectors are larger now than at the beginning of 2010. Within services, there has been strong growth in some high-value sub-sectors. Scientific research and development has grown by 21.3%, and architecture and engineering activities have grown by 38.8%. Over the last 5 years, 66.8% of employment growth has been in high-skilled occupations.<sup>13</sup>

### External rebalancing

**1.14** The UK is one of the most open economies in the world, so is affected by trends in global trade performance. Since the early 2000s, there has been a slowdown in global trade growth, and the UK has been affected by weakness in its main trading partners.<sup>14</sup> Goods exports to EU countries have been relatively subdued, having risen by 9.5% since Q1 2010. However, UK exports have continued to expand into other markets, supported by the government's efforts to boost trade. UK goods exports to non-EU countries have increased by 30.2% since Q1 2010.

**1.15** Weakness in the global economy has also depressed the income earned on the UK's overseas assets. The fall in net investment income accounts for the widening in the UK current account deficit in recent years, which the OBR forecasts to reverse when the global economy strengthens. In 2014, the current account deficit was -5.1% of GDP, and narrowed to -3.6% in Q2 2015. The OBR expects the current account deficit to continue to fall, forecasting the deficit to narrow to -2.1% by 2020.

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<sup>11</sup> 'Business Population Estimates', Department for Business, Innovation and Skills, October 2015.

<sup>12</sup> The north is defined as the North East, North West, and Yorkshire and the Humber regions.

<sup>13</sup> High-skilled occupations as defined in 'Economic Review', ONS, December 2014.

<sup>14</sup> 'World Economic Outlook', IMF, April 2015.

## UK economic outlook

Table 1.1: Summary of the OBR's central economic forecast<sup>1</sup>

	Percentage change on a year earlier, unless otherwise stated						
	2014	Forecast					
		2015	2016	2017	2018	2019	2020
<b>GDP growth</b>	<b>2.9</b>	<b>2.4</b>	<b>2.4</b>	<b>2.5</b>	<b>2.4</b>	<b>2.3</b>	<b>2.3</b>
<b>Main components of GDP</b>							
Household consumption <sup>2</sup>	2.6	2.9	2.6	2.3	2.3	2.1	1.9
General government consumption	1.9	1.7	0.4	0.6	0.5	0.5	1.1
Fixed investment	7.5	4.1	5.4	5.1	4.7	5.0	4.7
Business	4.6	6.1	7.4	7.1	7.0	6.6	4.5
General government <sup>3</sup>	7.6	3.0	0.8	0.6	-1.6	1.7	9.2
Private dwellings <sup>3</sup>	14.2	0.3	3.8	3.4	3.1	3.1	3.0
Change in inventories <sup>4</sup>	0.2	-0.9	0.0	0.0	0.0	0.0	0.0
Net trade <sup>4</sup>	-0.4	0.1	-0.2	-0.1	-0.1	-0.1	-0.1
<b>CPI inflation</b>	<b>1.5</b>	<b>0.1</b>	<b>1.0</b>	<b>1.8</b>	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>
<b>Employment (millions)</b>	<b>30.7</b>	<b>31.1</b>	<b>31.5</b>	<b>31.7</b>	<b>31.9</b>	<b>32.0</b>	<b>32.2</b>
<b>ILO unemployment (% rate)<sup>5</sup></b>	<b>6.2</b>	<b>5.5</b>	<b>5.2</b>	<b>5.2</b>	<b>5.3</b>	<b>5.4</b>	<b>5.4</b>

<sup>1</sup> 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.

<sup>2</sup> Includes households and non-profit institutions serving households.

<sup>3</sup> Includes transfer costs of non-produced assets.

<sup>4</sup> Contribution to GDP growth, percentage points.

<sup>5</sup> International Labour Organization.

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

**1.16** The OBR forecasts GDP growth of 2.4% in 2015. GDP growth is revised up in 2016 from 2.3% to 2.4% and in 2017 from 2.4% to 2.5%. The OBR expects the output gap to narrow slowly and to close during 2018.

**1.17** The OBR forecasts employment to be 31.1 million in 2015, rising each year to 32.2 million in 2020. Unemployment is forecast to be 5.5% in 2015, 5.2% in 2016 and 2017, 5.3% in 2018 and 5.4% thereafter.

**1.18** CPI inflation is forecast to be below target in 2015 and to remain below the 2% inflation target before returning gradually to 2.0% in 2019.

## Housing

**1.19** House price growth has moderated since 2014 with prices expected to rise by 6.2% in 2015, down from growth of 9.9% in 2014. Real house prices are now 3.0% below their pre-crisis peak. The OBR expects house prices to grow by an average of 5.0% a year between 2015 and 2020. There have been signs of a response in the housing supply with housing completions in Q3 2015 15.5% higher than a year earlier.

**1.20** Household debt relative to income has fallen from 168% in Q1 2008 to 144% in Q2 2015. Household debt as a proportion of income is forecast to remain below its pre-crisis peak while household assets relative to income are expected to remain above pre-crisis levels.

## Monetary policy and credit easing

**1.21** Monetary policy has played a role in supporting the recovery. The Monetary Policy Committee (MPC) has full operational independence to set monetary policy to meet the 2.0% inflation target as measured by the 12-month increase in the Consumer Prices Index. Inflation was -0.1% in October. In November, as required by the MPC remit, the Governor wrote to the Chancellor a fourth open letter in the current series relating to inflation more than a percentage point below target. The Governor has explained that, in September, four-fifths of the shortfall in inflation from target was due to falls in food, energy and other goods prices.<sup>15</sup>

**1.22** Bank funding costs have fallen substantially since the introduction of the Funding for Lending Scheme (FLS) in 2012. Annual growth in the stock of lending to small and medium sized enterprises (SMEs) also continues to improve, reaching 0.3% in September from a low of -4.5% in August 2012.<sup>16</sup> The FLS will continue to support lending to SMEs into 2016. Net lending to SMEs by participants in the FLS was £0.5 billion in Q2 2015, the second consecutive quarter of positive net lending.<sup>17</sup>

## Reactions from the IMF and the OECD

**1.23** Christine Lagarde, Managing Director of the International Monetary Fund (IMF), said “When we look at the comparative growth rates delivered by various countries in Europe it’s obvious that what is happening in the UK has actually worked”.<sup>18</sup> Angel Gurría, Secretary-General of the Organisation for Economic Co-operation and Development (OECD), said “The UK is an actual textbook case, or is fast becoming best practice on how labour market and good product market reform can support growth and job creation”.<sup>19</sup>

## Global developments

**1.24** As one of the most open trading economies in the world, the strength and stability of the global economic recovery is key to UK economic prospects. The UK is inevitably affected by problems in the world economy. The global economic recovery remains uneven, with weakness driven by the slowdown in emerging markets. Increased risks in the world economy demonstrate the need to continue to repair the UK economy in order to withstand future shocks.

**1.25** In 2015 the global economy is forecast to record its lowest growth rate since 2009. The IMF October World Economic Outlook (WEO) forecasts global growth to weaken to 3.1% in 2015, from 3.4% in 2014. In advanced economies, the IMF forecasts economic growth to be 2.0% in 2015, including 1.5% in the euro area, 2.6% in the US, and 0.6% in Japan. In emerging markets, the IMF expects economic growth to slow to 4.0% in 2015, from 4.6% in 2014. Some emerging markets may face increased financial pressure as the US Federal Reserve considers raising its policy interest rate, and are also affected by slower growth in China and lower commodity prices.<sup>20</sup>

**1.26** The UK is not immune from global risks which is why this Spending Review and Autumn Statement tackles the UK’s economic problems head on to deliver a surplus and reduce the UK’s debts.

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<sup>15</sup> Open letter from the Governor of the Bank of England to the Chancellor of the Exchequer, November 2015.

<sup>16</sup> ‘Monetary financial institutions loans to non-financial businesses, by business size’, Bank of England, October 2015.

<sup>17</sup> ‘Funding for Lending Scheme usage and lending data publication – Q2 2015’, Bank of England, September 2015.

<sup>18</sup> Christine Lagarde, International Monetary Fund (IMF) Spring Meetings press conference, April 2015.

<sup>19</sup> Angel Gurría, Organisation for Economic Co-operation and Development (OECD) press conference, February 2015.

<sup>20</sup> ‘World Economic Outlook’, IMF, October 2015.

## Public finances

### The government's fiscal plan

**1.27** Significant progress was made over the course of the last Parliament in fixing the public finances. The deficit has been reduced by almost two thirds as a share of GDP since its peak in 2009-10.<sup>21</sup> But in 2015-16, the deficit remains one of the highest among advanced economies.<sup>22</sup> This Spending Review and Autumn Statement sets out the action required to return the country to surplus by the end of the Parliament. As a share of GDP, the OBR forecasts that the deficit will be cut by three quarters in 2016-17 from its peak and eliminated altogether in 2019-20.<sup>23</sup>

**1.28** The OBR now forecasts the economy to continue to grow robustly, and for the public finances to be in a stronger position over the forecast period than at Summer Budget 2015.<sup>24</sup> Changes to the underlying forecast show a £27 billion improvement in the public finances. The underlying forecast for tax receipts is stronger and debt interest is lower.<sup>25</sup> This presents the government with choices: to borrow less, increase capital spend, or smooth the consolidation while reaching the same surplus. The Spending Review and Autumn Statement sets out how the government will do all of the above.

**1.29** On the basis of this Spending Review and Autumn Statement, borrowing will be over £8 billion lower over the forecast period and debt will be lower as a share of GDP in every year of the forecast compared to Summer Budget 2015.<sup>26</sup> The government will choose to invest £12 billion more in capital DEL than planned at Summer Budget 2015, and is also able to ease the transition to a higher wage, lower tax, lower welfare economy.

**1.30** Table 1.2 sets out the forecast for the key fiscal aggregates at the Autumn Statement. In October 2015, the ONS classified Housing Associations<sup>27</sup> into the public sector. This is a statistical reclassification which does not affect the underlying performance of the economy. The OBR has shown what the forecast made at Summer Budget would have looked like had Housing Associations been included in the public sector then. Table 1.2 shows the comparison between the forecasts at Autumn Statement and Summer Budget. There are currently no published estimates for Public Sector Net Borrowing (PSNB) and Public Sector Net Debt (PSND) including Housing Associations before 2013-14.

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<sup>21</sup> 'Public Sector Finances', ONS, October 2015; 'Economic and fiscal outlook', OBR, November 2015.

<sup>22</sup> 'IMF Fiscal Monitor', IMF, October 2015.

<sup>23</sup> 'Public Sector Finances', ONS, October 2015; 'Economic and fiscal outlook', OBR, November 2015.

<sup>24</sup> Comparisons between Autumn Statement 2015 and Summer Budget 2015 are made on a like-for-like basis, using Summer Budget 2015 numbers which have been restated to include Housing Associations. "Over the forecast period" refers to the five full years in the OBR forecast, 2016-17 to 2020-21.

<sup>25</sup> 'Economic and fiscal outlook', OBR, November 2015.

<sup>26</sup> 'Economic and fiscal outlook', OBR, November 2015.

<sup>27</sup> "Housing Associations" throughout this document refers to "private registered providers" of social housing in England which the ONS have reclassified from the private corporation sector to the public corporation sector. The reclassification affects over 1500 bodies providing social housing, including most housing associations and some for-profit housing bodies. ONS press-release: <http://www.ons.gov.uk/ons/rel/na-classification/national-accounts-sector-classification/classification-update---october-2015/index.html>.

Table 1.2: Comparison of key fiscal aggregates to Summer Budget 2015 restated to include Housing Associations

	Estimate	Forecast					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Public sector net borrowing (£ billion)</b>							
Autumn Statement 2015 <sup>1</sup>	94.7	73.5	49.9	24.8	4.6	-10.1	-14.7
Summer Budget 2015 restated to include Housing Associations <sup>1</sup>	93.7	74.1	46.7	26.5	8.2	-8.5	-10.0
Summer Budget 2015 <sup>2</sup>	89.2	69.5	43.1	24.3	6.4	-10.0	-11.6
<i>Change compared to Summer Budget 2015 restated to include Housing Associations</i>	<i>0.9</i>	<i>-0.6</i>	<i>3.3</i>	<i>-1.7</i>	<i>-3.6</i>	<i>-1.6</i>	<i>-4.7</i>
<b>Public sector net borrowing (% GDP)</b>							
Autumn Statement 2015 <sup>1</sup>	5.2	3.9	2.5	1.2	0.2	-0.5	-0.6
Summer Budget 2015 restated to include Housing Associations <sup>1</sup>	5.2	4.0	2.4	1.3	0.4	-0.4	-0.4
Summer Budget 2015 <sup>2</sup>	4.9	3.7	2.2	1.2	0.3	-0.4	-0.5
<i>Change compared to Summer Budget 2015 restated to include Housing Associations</i>	<i>0.0</i>	<i>-0.1</i>	<i>0.1</i>	<i>-0.1</i>	<i>-0.2</i>	<i>-0.1</i>	<i>-0.2</i>
<b>Public sector net debt (% GDP)<sup>3</sup></b>							
Autumn Statement 2015 <sup>1</sup>	83.1	82.5	81.7	79.9	77.3	74.3	71.3
Summer Budget 2015 restated to include Housing Associations <sup>1</sup>	84.0	83.6	82.5	80.6	78.0	74.7	71.6
Summer Budget 2015 <sup>2</sup>	80.8	80.3	79.1	77.2	74.7	71.5	68.5
<i>Change compared to Summer Budget 2015 restated to include Housing Associations</i>	<i>-0.9</i>	<i>-1.2</i>	<i>-0.8</i>	<i>-0.7</i>	<i>-0.7</i>	<i>-0.4</i>	<i>-0.3</i>

<sup>1</sup> Includes the impact of the reclassification of Housing Associations as set out in the OBR's Economic and fiscal outlook November 2015.

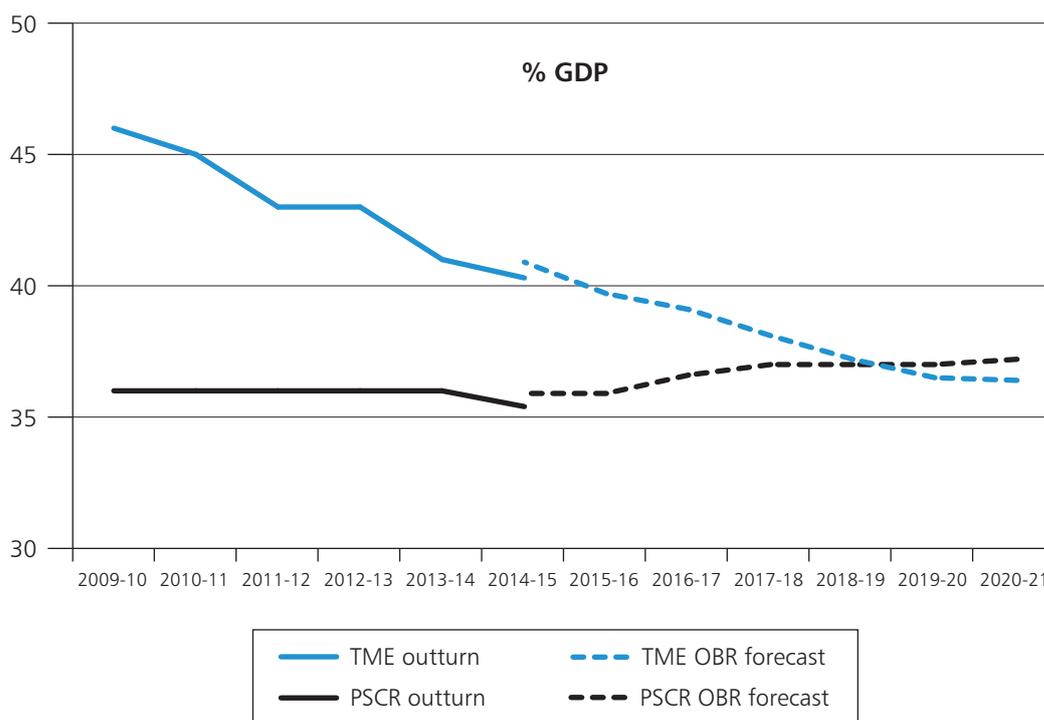
<sup>2</sup> Figures for 2014-15 were forecast at Summer Budget 2015.

<sup>3</sup> Debt at end March 2015 is outturn; GDP centred on end March 2015 reflects the November 2015 GDP forecast from the OBR. Therefore, the figure differs from the October Public Sector Finances release.

Source: Office for Budget Responsibility.

**1.31** The reduction in the deficit as a share of GDP between 2015-16 and 2019-20 is mainly due to lower spending as a share of GDP. Total managed expenditure is forecast to decline by 3.2% of GDP, from 39.7% in 2015-16 to 36.5% in 2019-20, while public sector current receipts rise by only 1.1% of GDP (Chart 1.3).

**Chart 1.3: Public sector current receipts (PSCR) and total managed expenditure (TME)**



Outturn series (2009-10 to 2014-15) is published ONS data which does not include Housing Associations.  
 Forecast series (2014-15 to 2020-21) is from OBR November 2015 Economic and fiscal outlook and includes Housing Associations.  
 Source: Office for National Statistics and Office for Budget Responsibility.

**1.32** At Summer Budget 2015, the government set out that around £37 billion of further discretionary consolidation would be needed to deliver the surplus in 2019-20. Summer Budget 2015 set out around £17 billion of that total: £5 billion from tax avoidance, evasion and imbalances in the tax system, and £12 billion from welfare.

**1.33** The improvements to the forecast since Summer Budget 2015 mean that the remaining consolidation now required is £18 billion as set out in Table 1.3. Spending Review 2015 delivers £12 billion of savings to overall RDEL spending. As announced at Summer Budget 2015, the government is introducing the apprenticeship levy which will be worth £3 billion by 2019-20 and funds 3 million apprenticeships. The remaining £3 billion is being delivered through reforms such as Making Tax Digital and further measures to tackle tax avoidance.

**Table 1.3: Consolidation plans set out in this Spending Review and Autumn Statement**

	£ billion			
	2016-17	2017-18	2018-19	2019-20
<b>Discretionary consolidation<sup>1</sup></b>	<b>-1</b>	<b>7</b>	<b>13</b>	<b>18</b>
Welfare	-3	-2	-1	0
RDEL Savings and Apprenticeship Levy <sup>2,3</sup>	1	7	11	15
Other tax and AME	1	2	2	3

<sup>1</sup> Totals may not sum due to rounding.

<sup>2</sup> RDEL savings calculated compared to a counterfactual in which RDEL excluding depreciation grows in line with whole economy inflation from its 2015-16 level (excluding the OBR's Allowance for Shortfall).

<sup>3</sup> Apprenticeships spending in England will be ringfenced within DEL budgets.

## Returning Britain to surplus

**1.34** The Charter for Budget Responsibility commits to achieving a surplus on the headline measure of the deficit, PSNB, in 2019-20 and to maintain a surplus in normal times in order to bring down debt as a share of GDP over the long term.

**1.35** Independent monetary policy now delivers low and stable medium-term inflation, to the benefit of the whole economy. This contrasts with the experience after World War II, when very high inflation, together with artificially low interest rates, played a major role in reducing debt.<sup>28</sup> Responsible fiscal policy must also take into account the fact that the UK economy will continue to be hit by shocks in the future.

**1.36** Once future economic shocks are allowed for, running a deficit to finance capital investment (balancing only the current budget) and relying on trend economic growth is insufficient to bring down debt, as set out in HM Treasury analysis at Budget 2014.<sup>29</sup> In a low inflationary environment, with economic shocks, the only reliable way to bring down debt as a share of GDP is to run an overall surplus in normal times.

**1.37** The updated Charter for Budget Responsibility, approved by the House of Commons on 14 October 2015, defines the government's targets as debt falling as a share of GDP each year until a surplus on the headline measure of PSNB is achieved by 2019-20, and to maintain a surplus in normal times thereafter. The simplicity and clarity of the metric ensure that governments will be held to account for their fiscal policy when the economy is performing well.

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

**1.39** The end goal is to ensure that long-term debt reduction continues, leaving the country better placed to withstand future economic shocks. Returning to a surplus in normal times will provide the government of the day with the fiscal space to allow appropriate action to be taken in the face of future shocks.

## Performance against the government's fiscal targets

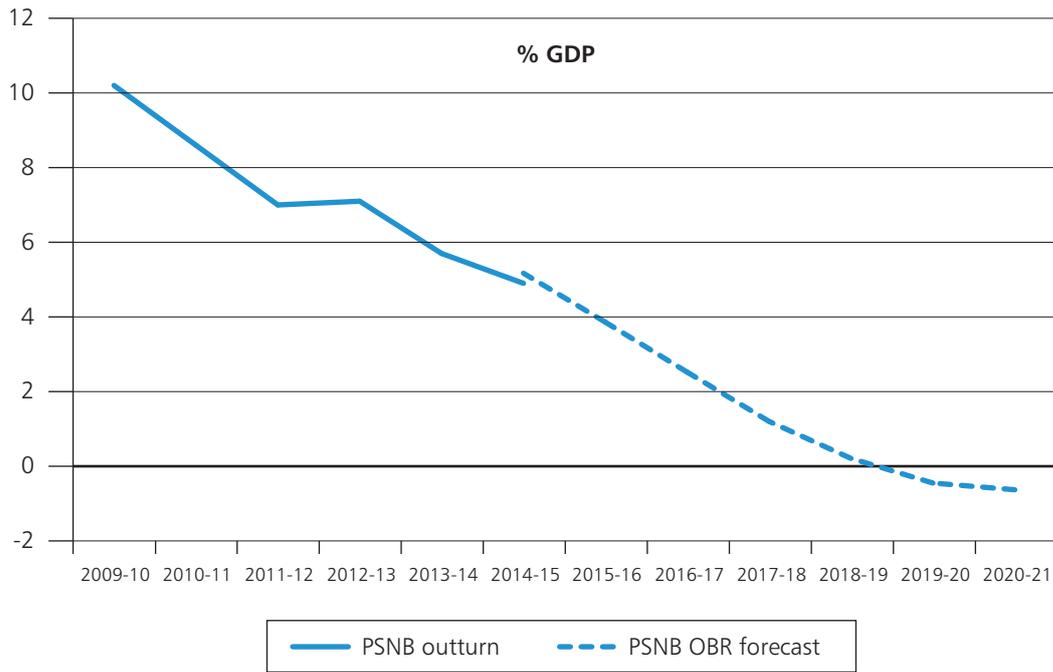
**1.40** The OBR's November 2015 'Economic and fiscal outlook' provides an assessment of the government's performance against its fiscal targets. It confirms the government is on course to achieve a surplus on public sector net borrowing of £10.1 billion in the target year of 2019-20 and to maintain a surplus in the following year, 2020-21. The OBR's judgement is that the government's policies are consistent with a roughly 55% chance of achieving the mandate in 2019-20. The government's fiscal strategy is to reduce the deficit by around 1.1% of GDP a year on average for the next four years – the same pace as over the last Parliament.

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<sup>28</sup> For further discussion see Box 5.1 of OBR, Fiscal sustainability report, July 2013.

<sup>29</sup> 'Annex B, Budget 2014', and updated analysis in 'Summer Budget 2015', HM Treasury.

**Chart 1.4: Public sector net borrowing (PSNB)**



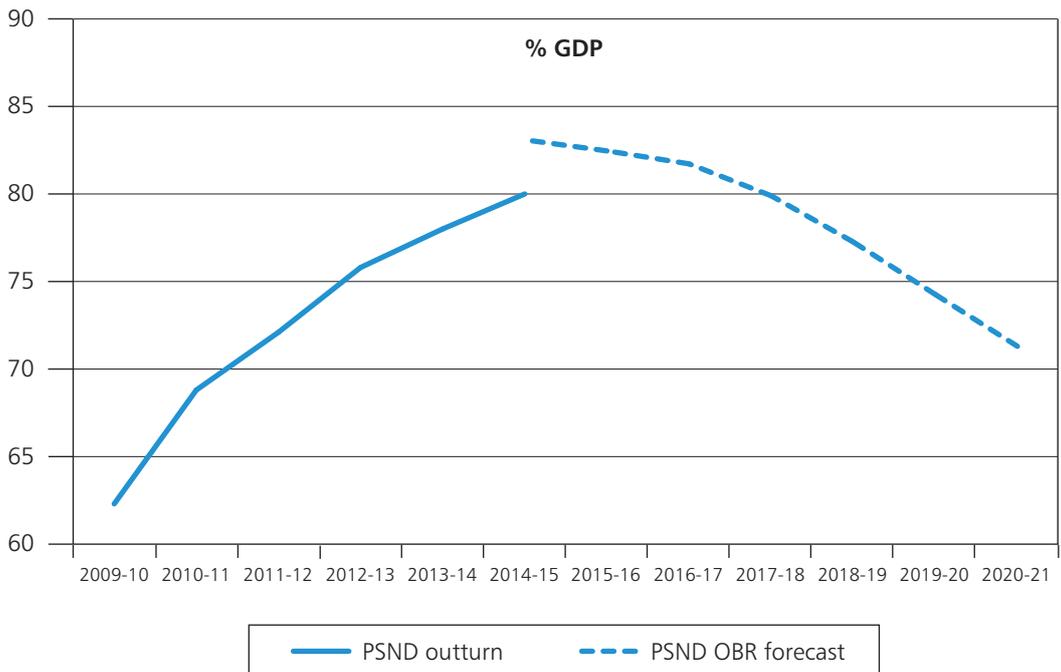
*Outturn series (2009-10 to 2014-15) is published ONS data which does not include Housing Associations. Forecast series (2014-15 to 2020-21) is from OBR November 2015 Economic and fiscal outlook and includes Housing Associations.  
Source: Office for National Statistics and Office for Budget Responsibility.*

**1.41** Chart 1.5 shows PSND as a percentage of GDP. At the beginning of the last Parliament, the government inherited the largest deficit in the post-war period.<sup>30</sup> Since 2010, the government has taken action to cut the deficit, but PSND has more than doubled since the pre-recession period. The gap between the outturn and the forecast series in Chart 1.5 in 2014-15 is due to the reclassification of Housing Associations. The government’s fiscal mandate is supplemented by a target for PSND as a percentage of GDP to be falling in each year until 2019-20. The OBR forecasts that the debt target will be met with debt falling by 0.6% of GDP between 2014-15 and 2015-16.<sup>31</sup> Public sector net debt continues to fall as a share of GDP across the forecast, reaching 71.3% of GDP by 2020-21.

<sup>30</sup> ‘Three Centuries of Data on the UK Economy’, Bank of England data.

<sup>31</sup> ‘Economic and fiscal outlook’, OBR, November 2015.

**Chart 1.5: Public sector net debt (PSND)**



Outturn series (2009-10 to 2014-15) is published ONS data which does not include Housing Associations. Forecast series (2014-15 to 2020-21) is from OBR November 2015 Economic and fiscal outlook and includes Housing Associations.  
Source: Office for National Statistics and Office for Budget Responsibility.

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

**1.43** Table 1.4 sets out the OBR forecast for key fiscal aggregates over this Parliament.

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

	% GDP, unless otherwise stated						
	Estimate	Forecast					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Deficit</b>							
Public sector net borrowing	5.2	3.9	2.5	1.2	0.2	-0.5	-0.6
Public sector net borrowing (£ billion)	94.7	73.5	49.9	24.8	4.6	-10.1	-14.7
Cyclically-adjusted net borrowing	4.4	3.4	2.3	1.1	0.2	-0.5	-0.6
Primary balance	-3.5	-2.2	-0.6	0.7	1.7	2.3	2.4
Treaty deficit <sup>1</sup>	5.1	3.9	2.5	1.3	0.3	-0.3	-0.6
<b>Debt</b>							
Public sector net debt <sup>2,3</sup>	83.1	82.5	81.7	79.9	77.3	74.3	71.3
Treaty debt <sup>4</sup>	87.5	87.1	86.5	84.8	82.2	79.2	76.0
<i>Memo: output gap</i>	-0.8	-0.7	-0.3	-0.1	0.0	0.0	0.0
<i>Memo: total policy decisions<sup>5</sup></i>		0.0	-0.1	0.1	0.2	0.3	0.3

<sup>1</sup> General government net borrowing on a Maastricht basis.

<sup>2</sup> Debt at end March; GDP centred on end March.

<sup>3</sup> Debt at end March 2015 is outturn; GDP centred on end March 2015 reflects the November 2015 GDP forecast from the OBR. Therefore, the figure differs from the October Public Sector Finances release.

<sup>4</sup> General government gross debt on a Maastricht basis.

<sup>5</sup> Equivalent to the 'Total policy decisions' line in Table 3.1 Autumn Statement 2015 policy decisions.

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

## Welfare cap

**1.44** The government introduced the welfare cap at Budget 2014 to strengthen control of welfare spending, support fiscal consolidation and improve Parliamentary accountability for the level of welfare spending. The cap applies to welfare spending in Annually Managed Expenditure with the exception of the state pension and the automatic stabilisers. A full list of benefits and tax credits that are within scope of the welfare cap is set out at Annex B.

**1.45** At the Autumn Statement, the government gives families longer to adjust to the higher wage, lower tax and lower welfare society, by not proceeding with the changes to the tax credit threshold and taper announced at Summer Budget 2015. As a result the OBR's assessment is that the cap is not met in 2016-17, 2017-18 and 2018-19.

**1.46** The government has taken action to ensure the cap is met in the medium term, and the government will retain the welfare cap at the current level. The OBR confirms that in 2019-20 and 2020-21 welfare spending will be within the forecast margin set at the Summer Budget.

**1.47** As set out in the OBR's November 2015 'Economic and fiscal outlook', spending is expected to be in the forecast margin in those years because of revisions to "spending on disability and incapacity benefits" and "the latest ONS population projections". Welfare spending within the cap is still set to fall by 1% of GDP over the welfare cap period – consistent with the 1% fall forecast at the Summer Budget.

Table 1.5: OBR assessment of the welfare cap

	£ billion				
	2016-17	2017-18	2018-19	2019-20	2020-21
Welfare cap	115.2	114.6	114.0	113.5	114.9
Forecast Margin (2%)	2.3	2.3	2.3	2.3	2.3
Total spending: change versus welfare cap	4.0	3.1	1.9	1.8	2.1
<i>of which:</i>					
Policy decisions <sup>1</sup>	3.0	1.9	0.7	-0.1	-0.3
Forecasting changes <sup>2</sup>	1.0	1.1	1.2	1.9	2.4
Total spending to which welfare cap applies	119.2	117.7	115.9	115.3	117.1

<sup>1</sup> Consistent with the welfare cap impact of total policy decisions set out in Table 3.1 (with signing convention reversed).

<sup>2</sup> Includes indirect effects.

Source: Office for Budget Responsibility and HM Treasury.

**1.48** In line with the requirements of the Charter for Budget Responsibility, and consistent with the Parliamentary accountability for welfare spending intended by the cap, the government will bring forward a debate on a votable motion in the House of Commons.

**1.49** This Autumn Statement sets out in detail the action the government is taking to ensure that the welfare system is fair to both claimants and taxpayers.

## The strategy for state-owned financial assets

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

**1.51** As set out in the OBR's November 2015 'Economic and fiscal outlook', the government has made almost £70 billion in recoveries from financial sector interventions to date.<sup>32</sup>

<sup>32</sup> 'Economic and fiscal outlook', OBR, November 2015.

**1.52** The government raised £2.1 billion with an initial sale of Royal Bank of Scotland (RBS) shares in August 2015.<sup>33</sup> **The government will extend its commitment to sell over £25 billion of RBS shares over this Parliament and raise a further £5.8 billion in 2020-21.**

**1.53** The government will make shares in Lloyds Banking Group (LBG) available for sale to the general public in spring 2016, as part of its plan to fully exit from its stake in LBG. Members of the public will receive incentives including a discount and bonus shares. Over £16 billion has been recovered for the taxpayer through the government's programme of LBG disposals, generating a surplus of £1.2 billion compared with the original investment price and reducing the taxpayer's stake to under 10%.<sup>34</sup>

**1.54** On 13 November, the Chancellor announced that UK Asset Resolution (UKAR) had sold £13 billion of former Northern Rock mortgages to Cerberus.<sup>35</sup> In line with its ongoing strategy to accelerate the run-down of its balance sheet and reduce PSND, UKAR will look to make further asset sales over the course of the Parliament, which are currently expected to total £7.5 billion, subject to market conditions and ensuring value for money.

### Debt and reserves

**1.55** The government's revised financing plans for 2015-16 are summarised in Annex C.

## The government's spending choices

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**1.56** The Spending Review sets out how the government will deliver on its priorities, to eliminate the deficit, and deliver security and opportunity for working people. The government has focused on allocating resources – £4 trillion over the next 5 years – to long term investment and key public services. This spending is accompanied by significant reform.

**1.57** A strong economy requires sound public finances. As part of that, the Spending Review makes the difficult decisions to:

- significantly reduce the central government grant to local authorities, while introducing a new council tax precept for social care, and undertaking the full devolution of business rates and new responsibilities so local areas have the tools to drive local growth
- reduce the costs of certain public services, while improving quality, through transformational changes to the criminal justice system, prisons, tax collection, and the delivery of welfare, enabling workforce reductions in the public sector
- change the balance of state support: offering health students more cash support while studying by moving from grant to loan funding, asking larger employers to contribute more to the cost of higher quality apprenticeship training whilst benefitting from higher skills of their employees, and replacing some innovation funding with loans

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<sup>33</sup> 'Government begins sale of its shares in the Royal Bank of Scotland', HM Treasury, 4 August 2015, available on [www.gov.uk](https://www.gov.uk/government/news/government-begins-sale-of-its-shares-in-the-royal-bank-of-scotland) <https://www.gov.uk/government/news/government-begins-sale-of-its-shares-in-the-royal-bank-of-scotland>.

<sup>34</sup> 'Government sells a further 1% shareholding in Lloyds', HM Treasury, 29 October 2015, available on [www.gov.uk](https://www.gov.uk/government/news/government-sells-a-further-1-shareholding-in-lloyds) <https://www.gov.uk/government/news/government-sells-a-further-1-shareholding-in-lloyds>.

<sup>35</sup> 'Government agrees record-breaking £13 billion sale of former Northern Rock mortgages', HM Treasury, 13 November 2015, available on [www.gov.uk](https://www.gov.uk/government/news/government-agrees-record-breaking-13-billion-sale-of-former-northern-rock-mortgages) <https://www.gov.uk/government/news/government-agrees-record-breaking-13-billion-sale-of-former-northern-rock-mortgages>.

## Spending contribution to fiscal consolidation

**1.58** Table 1.6 sets out the path for total public spending (Total Managed Expenditure) from 2015-16 to 2020-21, split between current and capital spending. Total public spending in 2019-20 will be £821 billion.<sup>36</sup>

**1.59** The Spending Review period covers the four years from 2016-17 to 2019-20 inclusive. This is the period during which the government is taking the decisions needed to return the public finances to surplus. Resource DEL is therefore set to 2019-20. An exception is made for those departments whose overall budgets are protected. Their Resource DEL is set to 2020-21. This meets the government's commitment to protect these budgets. Capital budgets for every department are set to 2020-21.

**1.60** As set out in paragraph 1.32 the Spending Review delivers consolidation of £12 billion through savings to departmental resource spending by 2019-20. This is made up of £21.5 billion of savings from unprotected departments, of which £9.5 billion will be reinvested in the government's priorities.<sup>37</sup>

**1.61** Overall Resource DEL will fall by 0.8% per year on average in real terms. The average rate of reduction over the preceding 5 years was 2.0%, more than twice as steep as the rate in this Spending Review period. Across all unprotected Whitehall departments the cumulative real rate of reductions over the Spending Review period is 19%.

Table 1.6: Total Managed Expenditure<sup>1</sup>

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
<b>CURRENT EXPENDITURE</b>						
Resource AME	345.3	353.3	365.9	378.4	391.8	403.9
Resource DEL excluding depreciation <sup>2</sup>	315.1	320.8	322.9	325.2	328.3	341.2
Ring-fenced depreciation	21.9	21.9	21.9	21.9	21.9	21.9
<b>Public Sector Current Expenditure</b>	<b>682.3</b>	<b>696.0</b>	<b>710.7</b>	<b>725.5</b>	<b>742.0</b>	<b>767.0</b>
<b>CAPITAL EXPENDITURE</b>						
Capital AME	31.7	33.4	31.7	30.7	31.7	34.5
Capital DEL <sup>2</sup>	41.7	44.0	45.0	45.0	47.3	55.7
<b>Public Sector Gross Investment</b>	<b>73.4</b>	<b>77.4</b>	<b>76.7</b>	<b>75.7</b>	<b>79.0</b>	<b>90.2</b>
<b>TOTAL MANAGED EXPENDITURE</b>	<b>755.7</b>	<b>773.3</b>	<b>787.5</b>	<b>801.2</b>	<b>821.0</b>	<b>857.2</b>
<i>Total Managed Expenditure (% GDP)</i>	<i>39.7%</i>	<i>39.1%</i>	<i>38.1%</i>	<i>37.2%</i>	<i>36.5%</i>	<i>36.4%</i>

<sup>1</sup> 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.

<sup>2</sup> Resource DEL excluding depreciation and Capital DEL form the envelopes for departmental settlements at the Spending Review.

<sup>36</sup> Source: HM Treasury, Spending Review and Autumn Statement 2015, Public Sector Statistical Analysis 2015, and Office for Budget Responsibility, Economic and Fiscal Outlook November 2015.

<sup>37</sup> The £21.5 billion figure includes the Office for Budget Responsibility's allowance for shortfall, its estimate of how much departments may underspend. The £9.5 billion figure relates specifically to 2019-20, the year the economy returns to surplus, and includes the National Health Service, Official Development Assistance as defined by the Department for International Development's budget, and defence and security as defined by the Ministry of Defence and Single Intelligence Account budgets.

## Major areas of public spending

**1.62** The government has chosen to prioritise its day to day spending on national security and key public services while investing more for the long term in capital infrastructure.

**1.63 The Spending Review sets out plans to increase departments' capital spending by £12 billion over the next 5 years.** It shows how the government is funding the unprecedented long-term capital plans set out at Spending Round 2013. **The government will exceed its commitment to invest £100 billion in infrastructure by 2020-21.**

## Protections and priorities

**1.64** The government has protected its core priorities from the spending reductions required to fix the public finances. The government will:

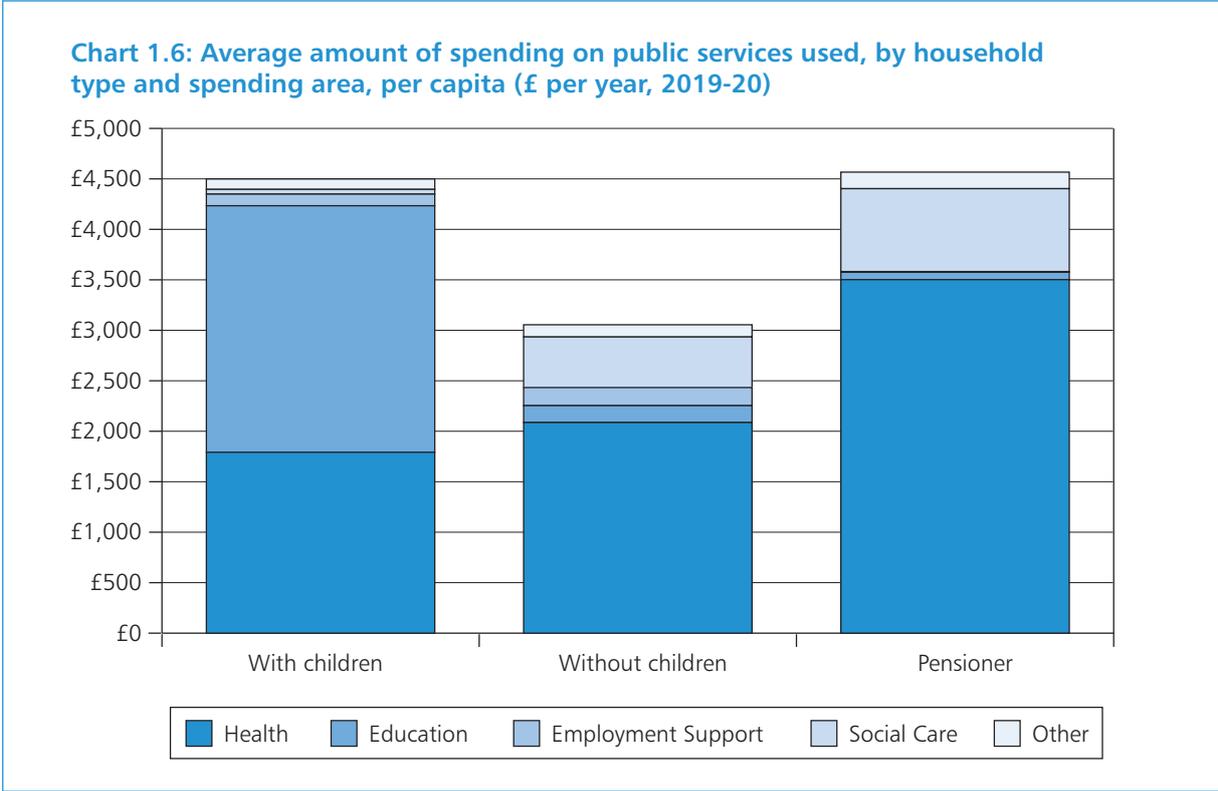
- spend 2% of Gross Domestic Product (GDP) on defence for the rest of this decade
- spend 0.7% of Gross National Income on overseas aid
- provide the NHS in England £10 billion per year more in real terms by 2020-21 than in 2014-15
- increase the basic State Pension by the triple lock in April 2016, so that it rises to £119.30 a week
- protect schools funding in England in real terms over the Spending Review period
- protect the national base rate per student for 16-19 year-olds in school sixth forms, sixth form colleges and further education colleges in England for the rest of the Parliament
- offer new financial support for further and higher education, with almost £1 billion of new loans by 2020-21 for part-time maintenance, postgraduate and higher level skills courses
- protect overall police spending in real terms over the Spending Review period
- maintain funding for the arts, national museums and galleries in cash terms over this Parliament

**1.65** The government's spending decisions have also been guided by a long-term focus – investing now to equip Britain for the future and to improve the productivity of the state. The government will:

- invest over £100 billion in the UK's infrastructure
- protect the £4.7 billion science budget in real terms over the Parliament
- invest £1.8 billion to digitally transform government services

# A progressive approach to spending

**1.66** The decisions taken in this Spending Review will continue to protect the poorest and most vulnerable in society. In 2019-20, the poorest 40% of households will still receive 50% of the total benefits from public spending on welfare and public services, as they did in 2010-11.<sup>38</sup> As shown in Chart 1.6, pensioners and households with children continue to be the largest beneficiaries of targeted public service spending. Each person living in a household which includes a child or a pensioner will receive around £4,500 of benefits in kind from spending on frontline public services in 2019-20, compared to £3,000 per person in working age households without children.<sup>39</sup>

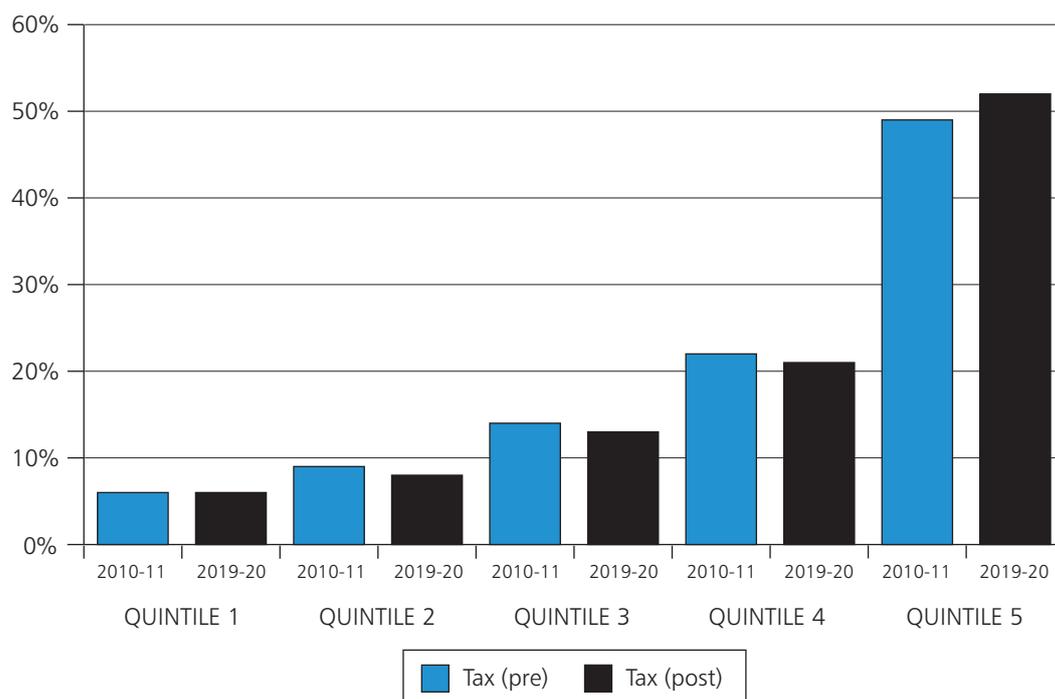


**1.67** The progressivity of government spending is determined both by how the money is spent, and by how it is raised. Government reforms since 2010, including increases in the income tax personal allowance as well as action on tax avoidance and changes to pensions tax relief, have resulted in the richest households paying a greater share of the taxes paid by households than they were paying in 2010. Chart 1.7 shows the distribution of taxes paid by households in 2019-20, compared to what this distribution would have looked like without any policy changes since 2010-11. The chart shows that:

- the highest income households pay the bulk of taxes; the richest 20% of households will pay more tax than all the other households put together in 2019-20
- the richest 20% of households will be paying a greater proportion of taxes in 2019-20 than in 2010-11 as a result of government policy, while households in the remaining quintiles will be paying a smaller share

<sup>38</sup> Source: Impact on households: distributional analysis to accompany the Spending Review and Autumn Statement 2015, GOV.UK.  
<sup>39</sup> Source: Impact on households: distributional analysis to accompany the Spending Review and Autumn Statement 2015, GOV.UK.

**Chart 1.7: Impact of policy decisions on the distribution of taxes, comparing the 2010-11 tax system with the 2019-20 tax system**



## Carrying out the Spending Review

**1.68** The government has undertaken a comprehensive programme of engagement to consult on the major spending challenges facing the country. Over the summer:

- the government invited written representations from organisations and individuals on the Spending Review – more than 500 submissions were received and considered as part of the decision-making process
- more than 22,000 ideas were put forward by public sector workers on how to reduce waste and deliver services more efficiently, as part of the Public Sector Efficiency Challenge – many of these will be implemented
- the government consulted experts across the public, private and third sectors through a series of workshops on issues such as exploiting technology to improve services and reduce cost, and greater collaboration between services
- the What Works centres submitted their key findings on the cost-effectiveness of spending programmes and discussed their evidence with the Chief Secretary
- the Chancellor chaired the Public Expenditure Committee (PEX), bringing together cabinet ministers to consider cross-cutting spending and policy issues

# Protecting Britain's national security

**1.69** The first duty of government is to ensure the economic and national security of the country and its people. The UK's national security rests on sound public finances and the Spending Review takes the necessary steps to deliver that. The investment decisions the government is making means the UK will continue to be protected with a cutting-edge military, strong domestic security, robust cyber defences and a truly global reach. The UK's overseas aid budget, its diplomatic network and organisations like the BBC World Service and the British Council means we can project British values abroad.

**1.70** The Spending Review delivers on the government's commitment to increase defence and security spending over the next 5 years, spending 2% of GDP on defence and 0.7% of Gross National Income (GNI) on Official Development Assistance (ODA). The UK is the only country to meet both of these commitments, consolidating its leading role in shaping a more stable and secure world. The government has published a new ODA strategy setting out how it will meet its promises to the world's poor and put international development at the heart of our national security and foreign policy.

## Defence and security

**1.71** Over the last Parliament, the government invested in new defence capabilities while bringing the defence budget under control and successfully drawing down from operations in Afghanistan.

## Investing to secure Britain's future

**1.72** The Summer Budget announced that the MOD budget would rise by 0.5% above inflation each year to 2020-21. **The Spending Review announces that an additional £3.5 billion will also be available from a Joint Security Fund over the next 5 years to fund new defence and security capabilities. The Security and Intelligence Agencies will see their budgets rise by 18% in real terms. The Home Office (HO) will make £500 million of new investments to 2021 in the UK's core counter terrorism capabilities.**

**1.73** **The Spending Review funds the Strategic Defence and Security Review (SDSR) in full, enabling the government to respond effectively to the strategic threats and opportunities that the UK faces.**

Table 1.7: Joint Security Fund

Department	£ billion
Ministry of Defence	2.1
Single Intelligence Account	1.3
Special Reserve	0.1
<b>Total Joint Security Fund</b>	<b>3.5</b>

**1.74** **With the Joint Security Fund and a growing budget, MOD will invest £11 billion in new capabilities, innovation and the defence estate. F35 aircraft will be purchased sooner than planned, so that by 2023 Britain will have 1 of its 2 new aircraft carriers available at all times to operate anywhere in the world, capable of deploying with 24 F35 jets on board.** The government will buy 9 Maritime Patrol Aircraft to protect the nuclear deterrent and develop plans for a new general purpose frigate for the Navy, as part of a national shipbuilding strategy to be published in 2016. The government will also make the necessary resources available to build 4 new submarines to renew the UK's Trident-armed nuclear deterrent.

**1.75 The Joint Security Fund will enable the intelligence agencies to increase their headcount by 15%<sup>40</sup>, 1900 more intelligence officers,** improving their capacity to investigate, analyse and disrupt terrorist threats. **The Single Intelligence Account (SIA) will also invest in a bigger and more capable global network and enhance its capability to fuse intelligence with the armed forces to disrupt threats and take decisive action in the most hostile operating environments worldwide.**

### Counter-Terrorism

The UK, like other countries, faces a clear terrorist threat. At Summer Budget, the government committed to protecting cross-government Counter-Terrorism (CT) spend of more than £2 billion per year. This spending has been reviewed and tested within the SDSR to identify efficiencies for reinvestment and to ensure it reflects our highest counter terrorism priorities.

**On top of that, the government will spend 30% more overall in real terms on key counter terrorism capabilities over the Parliament. Together, this will mean:**

- investment in new counter terrorism capabilities for the security and intelligence agencies worth £1.4 billion to enable them to investigate, analyse and help disrupt terrorist plots
- £2 billion of new investment in the capability of UK Special Forces to strike terrorists wherever they are in the world
- **£500 million of additional investment in the Home Office to protect UK citizens from terrorist threats, including: a real terms increase to the CT Policing Grant; a new National Digital Exploitation Service to analyse the growing volumes of seized media for evidence and intelligence leads; an increased number of specialist firearms officers; improved intelligence and threat detection at the border; and increased efforts to counter the poisonous ideologies that feed terrorism and extremism**

**1.76** To enable the government to respond to emerging threats to UK interests overseas, including regional stability, **the Spending Review announces that the government will expand the Conflict, Security and Stability Fund to more than £1.3 billion a year by 2020 to enable the UK to respond rapidly and effectively to crises and instability and meet our international peacekeeping commitments.**

**1.77 The National Cyber Security Programme will build on the successes of the last Parliament and expand in scope and ambition. The government will create a new National Cyber Centre to be a unified source of advice and support for the country** and will continue its investment in the offensive cyber programme to ensure the UK has cutting edge capabilities in this new domain of warfare. In total the government will spend £1.9 billion on cyber capabilities, an increase of 76% on the last Parliament.<sup>41</sup>

**1.78** All of the departments and organisations involved in defence and security will achieve more within their budgets and deliver significant efficiencies. **MOD will deliver £9.2 billion of savings, the SIA will deliver £1.3 billion and £400 million will be achieved from cross government counter-terrorism spending.** Some of MOD's savings will come from freeing up unused assets, including £1 billion from estate sales. All of these savings will be reinvested into capabilities to protect our national security.

**1.79** To maintain the UK's global influence, freedom of action and operational advantage, **the government will broaden the supply base and encourage new and innovative companies by establishing a £165 million Defence and Cyber Innovation Fund.** The

<sup>40</sup> 2014-15 Financial Statement for the SIA, Cabinet Office, July 2015.

<sup>41</sup> Spending Review 2013.

government will ensure its buying decisions support defence exports where possible and will establish a dedicated team to support the negotiation and delivery of government-to-government defence and security deals. **To further support innovation the government will dedicate 1.2% of its growing defence budget to science and technology over this Parliament.**

## Security at home: police and law enforcement

**1.80** Police reform is working. Over the last Parliament, police constables showed extraordinary innovation and creativity to find £1.5 billion of savings in local police force budgets. During this time, crime has fallen by more than a quarter, the proportion of officers in frontline roles has increased to 92%, victim satisfaction with the police has remained strong and the local accountability of policing has been strengthened, with the first Police and Crime Commissioners (PCCs) elected in 2012.<sup>42</sup>

### **1.81 The government will protect overall police spending in real terms over the Spending Review period, an increase of £900 million in cash terms by 2019-20.**

This will provide funding to maintain overall police force budgets at current cash levels. The government will allocate additional transformational funding to those forces which have strong proposals to support efficiency and reform and to help transition to new funding arrangements in future. This funding will also allow forces to adapt to changing crime threats and to train more firearms officers to ensure the country extends its capability to protect its citizens from terrorist threats. **The government will also protect the National Crime Agency's budget as it leads UK law enforcement's fight to cut serious and organised crime.**

### **1.82 The government will offer PCCs greater flexibility in their local funding decisions by rewarding those areas which have historically kept council tax low. This will allow them to raise up to an additional £12 million per year compared to a 2% annual increase.**

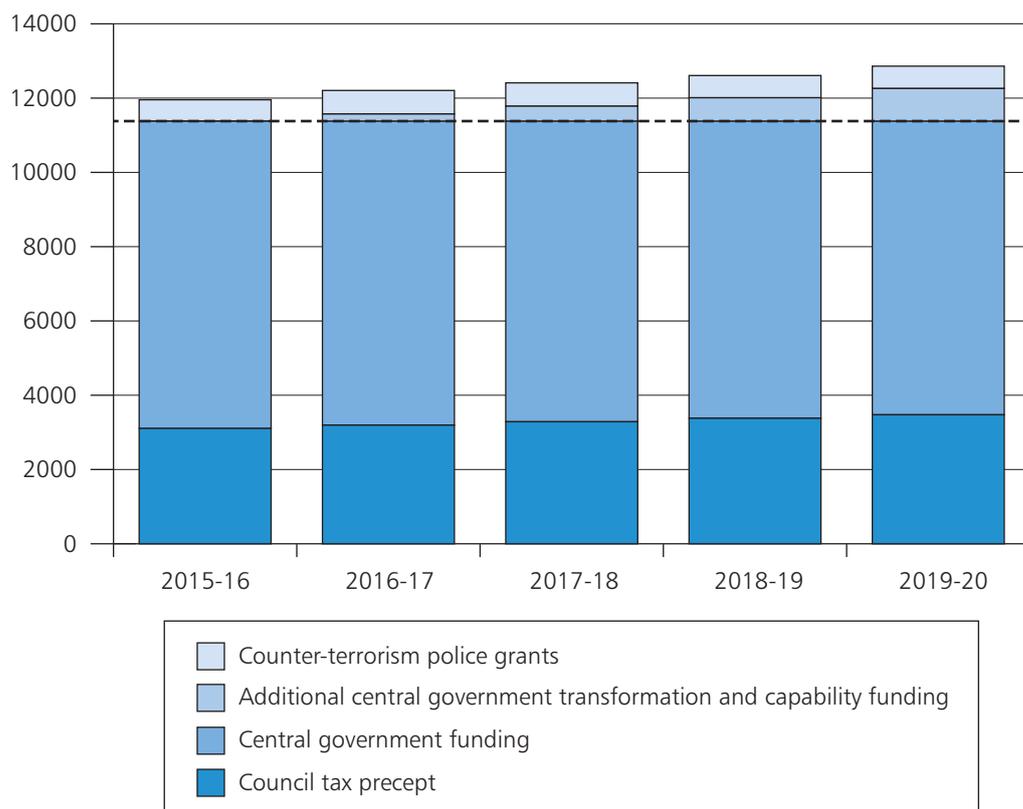
**1.83** The government is taking steps to enable police officers to spend more time fighting crime. **The Spending Review invests nearly £1 billion in the next generation of 4G communications network for the Emergency Services which will enable officers to access key police databases, take mobile fingerprints and electronic witness statements and stream live body worn video – all whilst on the move.** This critical national infrastructure will free up officers' time, save the taxpayer around £1 million a day when fully operational and connect all emergency services on the same broadband network for the first time. **Alongside this the government will help forces to improve police efficiency by taking steps to drive down the cost of police procurement by up to £350 million and encouraging greater collaboration between police forces and with other public and emergency services.**

**1.84 The government will fund new digital and investigative capabilities for the National Crime Agency,** transforming it into a world-leading law enforcement agency tackling cyber-crime, child sexual exploitation and the distribution of criminal finances.

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<sup>42</sup> 'Crime in England and Wales, Year Ending June 2015', Crime Survey for England and Wales, Office for National Statistics, October 2015; Police workforce, England and Wales, Home Office, July 2015.

**Chart 1.8: Police Resource Funding (£m) England and Wales**



Note: Precept levels subject to local Police and Crime Commissioner decisions

## UK aid: tackling global challenges in the national interest

**1.85** The government is committed to spending 0.7% of GNI on ODA, as enshrined in law.

**1.86 The government has published a cross-government ODA strategy, which outlines its new approach to UK aid spending.** The strategy is underpinned by a very clear guiding principle: that the UK's development spending will meet its moral obligation to the world's poorest and also support the UK's national interest. In line with that principle, the government will shape its ODA spending according to four strategic objectives: **to strengthen global peace, security and governance; to strengthen resilience and response to crises; to promote global prosperity; and to tackle extreme poverty and help the world's most vulnerable.** The government will ensure that all ODA spend is good value for money.

**1.87** The government will spend 0.7% of GNI on ODA every year, rising to £16.3 billion per year by 2020. This will include:

- **an increase in aid spending for the Syrian crisis and the related region.** This includes increased spending in DFID directly for the region and over £460 million of ODA to resettle up to 20,000 of the most vulnerable Syrian refugees, covering the full first-year costs to ease the burden on local communities
- **a new £500 million ODA crisis reserve,** enabling flexible, quick and effective cross-government responses to crises as they happen

- a new £1 billion Ross Fund over the next 5 years, partnered by the Bill and Melinda Gates Foundation, to invest in the research and development of drugs, vaccines, diagnostics and treatments which will combat the most infectious diseases, including the fight to eradicate malaria. The fund will also support work to fight diseases of epidemic potential, such as Ebola, neglected tropical diseases, and drug resistant infections. This will harness the best of British research to save millions of lives around the world while better protecting UK citizens from the threat of disease.
- **a new Global Challenges research fund of £1.5 billion over the next 5 years to ensure UK science takes a leading role in addressing the problems faced by developing countries**
- **an increase in funding for the BBC World Service of £34 million in 2016-17 and £85 million a year thereafter**, a significant proportion of which will be ODA. As a provider of accurate, impartial and independent news the BBC World Service helps to strengthen democratic accountability and governance, and promote Britain and our values around the world

**1.88** DFID will remain the UK's primary channel for aid, but to respond to the changing world, **more aid will be administered by other government departments**, drawing on their complementary skills.

## Global prosperity: strengthening UK influence abroad

**1.89** The government will use ODA to promote economic reform in the developing world. **The Spending Review will create a new cross-government Prosperity Fund worth £1.3 billion over the next 5 years, to support global growth, trade, stability and reduce poverty in emerging and developing economies**, which will also open up new markets and opportunities to the UK.

**1.90 The government will protect the Foreign and Commonwealth Office (FCO) budget in real terms.** This will enable the FCO to support successful Economic and Financial Dialogues with China, India, Brazil and others. The FCO will increase its engagement in the Middle East and the Gulf to maximise the UK's influence on issues of security, stability and prosperity. **The FCO will invest over £400 million in its estate, including new embassy buildings in Abuja and Budapest.** This will open up global markets and safeguard British citizens overseas. **The FCO's global network will be strengthened, supporting UK businesses access to global markets and safeguarding British citizens overseas.**

**1.91 The government will do more to project the UK's values and influence abroad, including by protecting funding for the British Council in real terms.** The government will continue to invest in English language training for young people around the world. **To help strengthen the governance and prosperity of developing countries and build strong relationships with global leaders of the future, the government will fund 2,200 scholarships per year to study in the UK.**

**1.92** To take advantage of trade and investment opportunities created by increasing global prosperity the government will refocus UK Trade and Investment (UKTI) to enable it to become a world-class export and investment promotion agency. The government will also make it easier for those coming to do business and visit the UK. **The government will trial a 2 year visa for Chinese visitors from January 2016 with plans to extend this to a 10 year visa.**

## Climate change

**1.93** The UK's security and prosperity is vulnerable to climate change, and this challenge requires a global response. **The government will continue to push for a strong global climate change agreement in Paris this December**, to keep the goal of limiting global warming to 2 degrees above pre-industrial levels firmly within reach.

**1.94 The Spending Review announces a 50% increase in funding over the next 5 years for developing countries to tackle and adapt to climate change.**

**1.95 The government will double its domestic energy innovation programme.** In line with this, **the UK will continue to play a leading role in international research efforts to reduce the costs of low carbon energy**, working with other countries to strengthen international collaboration and transparency in clean energy research, development and demonstration.

## A sustainable health and social care system

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**1.96** A fully funded NHS is only possible with a strong economy and strong public finances. The Spending Review announces the biggest ever investment in the healthcare system to ensure high quality and sustainable care for families across the country 7 days a week. The Spending Review also puts more investment into social care and devolves greater power to local areas to make decisions about their health and social care services to drive forward an ambitious plan to integrate health and social care by 2020.

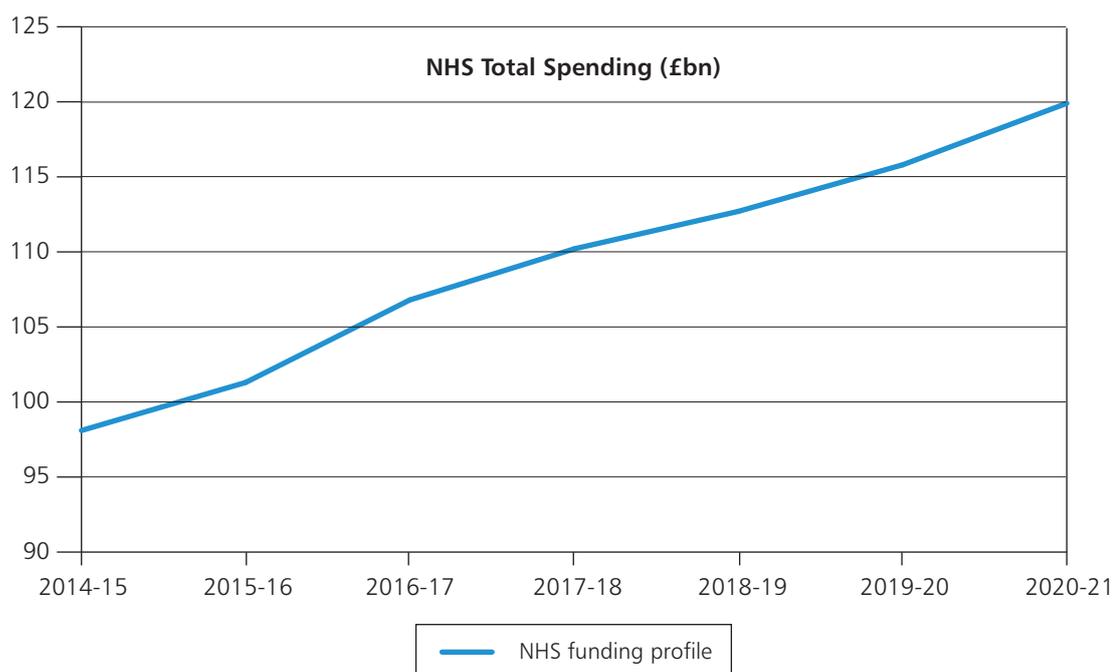
## A sustainable NHS ready for the future

**1.97 The Spending Review confirms that the NHS will receive £10 billion more in real terms by 2020-21 than in 2014-15, with £6 billion available by the first year of the Spending Review so that the government fully funds the NHS's own Five Year Forward View.** By taking the difficult decisions required elsewhere, the government is able to increase NHS spending in England from £101 billion in 2015-16 to £120 billion by 2020-21.<sup>43</sup> This is £2 billion more than the NHS asked for in its Five Year Forward View. Alongside this, the government expects the NHS to deliver £22 billion of the efficiency savings it said it can find in the Five Year Forward View, to deliver the best value from NHS resources.

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<sup>43</sup>The Mandate – A mandate from the Government to NHS England: April 2015 to March 2016, Department of Health, December 2014.

**Chart 1.9: Increase in NHS funding**



**1.98** The government's investment will ensure that everyone will be able to access services in hospitals 7 days a week and GP services in the evenings and at the weekend. By 2020-21 the NHS will be funded to provide:

- **800,000 more elective admissions to hospital for procedures such as operations**
- **5.5 million more outpatient appointments**
- **2 million more diagnostic tests**
- **over 100 million more free prescriptions every year**
- **new hospitals in Brighton, West Birmingham and Cambridge over the next 5 years**

**1.99** This investment will result in faster diagnosis, more effective treatment and greater choice of services, and provide greater funding for new clinical strategies such as cancer and mental health, including:

- implementing the recommendations of the Independent Cancer Taskforce so that **by 2020 patients referred for testing by a GP should be diagnosed for cancer, or given the all clear, within 4 weeks**. This will be delivered by **investing up to £300 million a year by 2020 to fund new diagnostic equipment** and additional staff capacity, including 200 additional staff trained to perform endoscopies by 2018
- **investing an additional £600 million in mental health services**. Additional investment will mean that significantly more people will have access to talking therapies every year by 2020. NHS England's Mental Health Taskforce will report in early 2016 and the government will work with them to set out transformative plans, including for perinatal mental health and coverage of crisis care.

**1.100** **The Spending Review reforms the funding system for health students by replacing grants with student loans and abolishing the cap on the number of student places for nursing, midwifery and allied health subjects.** The current grant system means that there is a cap on student nurses and over half of all applicants to nursing courses are turned

away. This reform will enable universities to provide up to 10,000 additional nursing and other health professional training places this Parliament. This will ensure that there are enough nurses for the NHS while cutting the current reliance on expensive agency staff. The move to loans will also mean access to 25% more financial support for health students during their studies. The government will work with key stakeholders to implement the reforms.

**1.101 The government will invest £1 billion in new technology over the next 5 years to deliver better connected services for patients and ensure that doctors and nurses have the information they need at their fingertips.** By September 2018, 80% of clinicians in primary, urgent and emergency care will have digital access to key patient information. By 2020 integrated care records will give every health and care professional concerned with an individual's care the information they need to provide safe and prompt care. **The government will invest £10 million in expanding the Healthcare Innovation Test Bed programme.** This facilitates partnerships between industry and the NHS to make healthcare more effective and efficient by testing combinations of new digital technologies and innovations in NHS services. The Test Bed programme will fund a testing site in every region.

**1.102 The government is investing over £5 billion in health research and development** to support work on some of the biggest health challenges facing the UK and the international community. This will include:

- £250 million for the 100,000 Genomes Project to introduce whole genome sequencing technology in the NHS, **including funding for Genomics England**
- **launching the Global Antimicrobial Resistance Innovation fund, partnered with China**, to combat the threat from emerging strains of diseases resistant to existing treatments. **The government is investing £50 million in this fund to address underinvestment in antimicrobial resistance research and providing an initial investment of £4 million to establish an Antimicrobial Resistance Centre of Excellence in Research and Development at Alderley Park**, subject to a business case
- **the government will fund a new £1 billion Ross Fund, partnered by the Bill and Melinda Gates Foundation, to invest in the research and development of drugs, vaccines, diagnostics and treatments which will combat the most infectious diseases, including the fight to eradicate malaria**

**1.103** The Five Year Forward View set out how the NHS will deliver £22 billion in efficiency savings by 2020-21. This will come through improvements to quality of care and prevention, staff productivity and better procurement. For example, the Carter Review sets out how hospitals could save £5 billion by making better use of staff, using medicines more effectively, and buying the most cost-effective goods and services.

**1.104** The government will make savings in local authority public health spending. The government will also consult on options to fully fund local authorities' public health spending from their retained business rates receipts, as part of the move towards 100% business rate retention. **The ringfence on public health spending will be maintained in 2016-17 and 2017-18.**

**1.105** The government remains committed to tackling society's health problems, not just treating the symptoms. Key national services will continue to be mandated, and the government will look to devolve greater powers so that local authorities can take preventative action. The government will take a national lead in tackling obesity as the leading cause of preventable ill-health, with a specific focus on protecting the health of our children. Details will be set out in a Childhood Obesity strategy in 2016. This will take account of what the evidence says is needed.

**1.106** In addition, the government wants to improve links between health services and employment support, recognising timely access to health treatments can help individuals return to work quicker. **Over £115 million of funding will be provided for the Joint Work and Health Unit, including at least £40 million for a health and work innovation fund, to pilot new ways to join up across the health and employment systems.** To further integrate services and help people back into work, where it has been agreed as part of a devolution deal, local areas will co-design employment support for harder-to-help claimants. The government will also publish a White Paper in 2016 that will set out reforms to improve support for people with health conditions and disabilities, including exploring the roles of employers, to further reduce the disability employment gap and promote integration across health and employment.

## Adult social care

**1.107 The Spending Review creates a social care precept to give local authorities who are responsible for social care the ability to raise new funding to spend exclusively on adult social care.** The precept will work by giving local authorities the flexibility to raise council tax in their area by up to 2% above the existing threshold. If all local authorities use this to its maximum effect it could help raise nearly £2 billion a year by 2019-20.<sup>44</sup> **From 2017 the Spending Review makes available social care funds for local government, rising to £1.5 billion by 2019-20, to be included in an improved Better Care Fund.**

**1.108** Taken together, the new precept and additional local government Better Care Fund contribution mean local government has access to the funding it needs to increase social care spending in real terms by the end of the Parliament. This will support councils to continue to focus on core services and to increase the prices they pay for care, including to cover the costs of the National Living Wage, which is expected to benefit up to 900,000 care workers.

**1.109** The government will also continue to improve care for older and disabled people and support for their carers. The Care Act reforms introduced in April focus on wellbeing, prevention and delaying the need for social care. In support of these principles, **the Spending Review includes over £500 million by 2019-20 for the Disabled Facilities Grant, which will fund around 85,000 home adaptations that year.** This is expected to prevent 8,500 people from needing to go into a care home in 2019-20.

**1.110** The government remains committed to introducing the Dilnot reforms to social care, with funding provided in 2019-20 to cover the costs of local authorities preparing for these changes. The cap on reasonable care costs and extension of means tested support will then be introduced and funded from April 2020. The deferred payments scheme already means that no one will be forced to sell their home in their lifetime to pay for care.

## Integrating and devolving health and social care

**1.111** Locally led transformation of health and social care delivery has the potential to improve services for patients and unlock efficiencies. Spending Round 2013 established the Better Care Fund which has driven the integration of funding for health and social care and enabled services to be commissioned together for the first time. This year the NHS and local authorities in England shared £5.3 billion in pooled budgets.<sup>45</sup> **The Spending Review continues the government's commitment to join up health and care. The government will continue the Better Care Fund, maintaining the NHS's mandated contribution in real terms over the Parliament. From 2017 the government will make funding available to local government, worth £1.5 billion in 2019-20, to be included in the Better Care Fund.**

<sup>44</sup> Council Tax Levels set by Local Authorities in England 2015-16, DCLG, March 2015.

<sup>45</sup> Internal Department of Health data.

**1.112** The Better Care Fund has set the foundation, but the government wants to further, faster to deliver joined up care. **The Spending Review sets out an ambitious plan so that by 2020 health and social care are integrated across the country.** Every part of the country must have a plan for this in 2017, implemented by 2020. Areas will be able to graduate from the existing Better Care Fund programme management once they can demonstrate that they have moved beyond its requirements, meeting the government's key criteria for devolution.

**1.113** The government will not impose how the NHS and local government deliver this. The ways local areas integrate will be different, and some parts of the country are already demonstrating different approaches, which reflect models the government supports, including:

- Accountable Care Organisations such as the one being formed in Northumberland, to create a single partnership responsible for meeting all health and social care needs
- devolution deals with places such as Greater Manchester which is joining up health and social care across a large urban area. The government continues to support Greater Manchester in delivering the vision and scale of their transformation
- Lead Commissioners such as the NHS in North East Lincolnshire which is spending all health and social care funding under a single local plan

## Security and opportunity for families

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### A higher wage, lower tax, lower welfare society

**1.114** The government is moving Britain to a higher wage, lower tax, lower welfare society. At the Summer Budget, the government announced the introduction of the National Living Wage (NLW), an increase in the income tax personal allowance and welfare reform. The Spending Review and Autumn Statement sets out the next stage in these reforms.

#### A higher wage society: the National Living Wage

**1.115** At the Summer Budget the government announced a new mandatory NLW from April 2016 for workers aged 25 and above. The introduction of the NLW at £7.20 from April 2016 will significantly increase pay for these workers, leading to a £900 cash increase in earnings for a full-time worker on the current National Minimum Wage (NMW) next year. This is the largest annual increase in a minimum wage rate across any G7 country since 2009, in cash and real terms.<sup>46</sup>

**1.116** The government has asked the Low Pay Commission (LPC) to set out how the new NLW will reach 60% of median earnings by 2020. Based on the OBR's earnings forecasts, this means that the NLW will be over £9 by 2020. Those on the current NMW and benefiting from the introduction of the NLW are expected to see their wages rise by around 40% over the next 5 years.<sup>47</sup> This is the biggest ever increase over a 5 year period for the main NMW, and for a much larger group of people. 2.75 million low wage workers are expected to benefit directly and the OBR forecasts that up to 6 million could see a pay rise as a result of the ripple effect of higher earnings further up the earnings distribution.<sup>48</sup>

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<sup>46</sup> Minimum wage rate data from the OECD. Available at: <http://stats.oecd.org/>

<sup>47</sup> Historic estimates of numbers of NMW employees from Low Pay Commission analysis of Annual Survey of Hours and Earnings data. Estimates of number of beneficiaries of the NLW as set out in OBR 'Economic and fiscal outlook', November 2015.

<sup>48</sup> OBR 'Economic and fiscal outlook', November 2015.

## A lower tax society: cutting taxes for working people

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

**1.118** At the Summer Budget the government took the first steps towards meeting these commitments; increasing the personal allowance from £10,600 in 2015-16 to £11,000 in April 2016, and raising the higher rate threshold from £42,385 in 2015-16 to £43,000 in April 2016. As a result of these changes, 29 million people will benefit and 570,000 will be taken out of income tax altogether. In 2016-17 a typical basic rate taxpayer will pay £905 less tax than they did in 2010 and a typical higher rate taxpayer will pay £818 less tax.

**1.119** The government also legislated to ensure that once the personal allowance has reached £12,500, it will always be set at least at the equivalent of 30 hours a week on the NMW. The government increased the adult NMW rate to £6.70 in October 2015. The 2016-17 personal allowance of £11,000 therefore ensures that no one working 30 hours a week on the NMW will pay income tax.

## A lower welfare society: reforming the system to make it fairer and more affordable

**1.120** As set out at the Summer Budget, spending on working-age welfare increased by 54% in real terms between 1999-00 and 2010-11, and tax credit expenditure more than trebled over the same period.<sup>49</sup> Since then, the government has taken action to reduce reliance on benefits and increase incentives to work, including introducing Universal Credit, the most fundamental transformation of the welfare system since its inception. However, despite progress during the last Parliament there is still more to do. Welfare expenditure remains disproportionately high: 7% of global expenditure on social protection is spent in the UK, despite the fact that the UK produces 4% of global GDP and has only 1% of the world's population.<sup>50</sup>

**1.121** The Summer Budget took important steps to move Britain towards a higher wage, lower tax, lower welfare society. The introduction of the NLW will mean a pay rise of over £4,700 by the end of the Parliament for anyone 25 or over working full time on the NMW. Changes to the personal allowance announced at Summer Budget mean basic rate taxpayers keep £80 more through lower taxes in 2016-17, compared to this year. And further welfare reform was introduced to bring down the welfare bill.

**1.122** The government's long-term economic plan is working. Changes to the underlying forecast show a £27 billion improvement in the public finances compared to Summer Budget. So alongside lower borrowing and increased investment in capital, the government can afford to give families longer to adjust to the transition to a higher wage, lower tax, lower welfare society. This means that:

- **the tax credits income threshold will remain at £6,420 from April 2016 and the tax credits taper will remain at 41% of gross income**
- from April 2016 the amount by which a tax credit claimant's income can increase in-year compared to their previous year's income before their award is adjusted (the income rise disregard) will be reduced to £2,500 as announced at Summer Budget, ensuring tax credit entitlement better reflects claimants' actual income

<sup>49</sup> OBR data on GDP deflator; DWP Benefit Expenditure and Caseload Tables.

<sup>50</sup> World Bank data on social protection and population; IMF data on GDP.

**1.123** Merging 6 benefits into 1, Universal Credit marks a turning point towards a system where work, and working more, will always pay. The changes to Universal Credit announced at Summer Budget will go ahead as planned from 2016-17, and as previously announced, those transferred by DWP from tax credits to Universal Credit will receive transitional protection. **The Spending Review and Autumn Statement updates the individual threshold in the Minimum Income Floor for the self-employed in line with the NLW instead of the NMW.**

**1.124** These changes mean that the net income of a typical non-renting household with two children, with one parent working 35 hours a week on the NLW, will be £1,900 higher in cash terms in 2020-21 than in 2015-16. But more of this income will come from their earnings – 53% in 2015-16 and 64% in 2020-21 – and the proportion from in-work benefits will fall from 39% in 2015-16 to 28% in 2020-21. Where both parents are working 35 hours a week on the NLW, their income will be £3,900 higher in 2020-21 than in 2015-16, and the proportion from in-work benefits will fall from 12% in 2015-16 to 0% in 2020-21.<sup>51</sup> While 9 out of 10 families with children were eligible for tax credits in 2010, and 6 out of 10 in 2015, only 5 out of 10 families with children will be eligible for Universal Credit by the time it is fully rolled out.<sup>52</sup>

**1.125** Between 1999-00 and 2010-11, spending on Housing Benefit increased by 46% in real terms, reaching £21.4 billion.<sup>53</sup> The government has already announced significant changes to Housing Benefit at Summer Budget. This Spending Review and Autumn Statement takes further steps to ensure fairness between those receiving Housing Benefit and those paying for the system. The government will:

- **cap the amount of rent that Housing Benefit will cover in the social sector to the relevant Local Housing Allowance**, which is the rate paid to private renters on Housing Benefit. This will include the Shared Accommodation Rate for single claimants under 35 who do not have dependent children. This reform will mean that Housing Benefit will no longer fully subsidise families to live in social houses that many working families cannot afford, and will better align the rules in the private and social rented sectors. It will also ensure that Housing Benefit costs are better controlled and will help prevent social landlords from charging inflated rent for their properties. This will apply to tenancies signed after 1 April 2016, with Housing Benefit entitlement changing from 1 April 2018 onwards
- **limit Housing Benefit and Pension Credit payments to 4 weeks for claimants who are outside Great Britain, from April 2016.** At present, Housing Benefit recipients can go abroad for up to 13 weeks while continuing to receive Housing Benefit. The benefit system should not subsidise those on benefits to go abroad for extended periods: this reform will ensure the benefit system is not paying the rent of people who go abroad for more than 4 weeks at a time

**1.126 Additional Discretionary Housing Payment funding will be made available to local authorities** to protect the most vulnerable including those in supported accommodation.

**1.127** As a result of all these reforms, Britain is moving towards a higher wage, lower tax, lower welfare society. Families will have longer to adjust, and £12 billion a year of welfare savings will be achieved by 2019-20.

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<sup>51</sup> HM Treasury calculations; NLW based on OBR earnings projections.

<sup>52</sup> Tax Credits: HMRC calculations using Child Benefit, Child Tax Credit and Working Tax Credit Take-up Rates 2010-11 and 2012-13 and ONS Family and Households data 2013. Universal Credit: DWP calculations.

<sup>53</sup> Benefit and Expenditure Caseload Tables, DWP, 2015.

## A society that works: full employment

**1.128** The government has set out its ambition to raise the UK's employment rate to the highest in the G7. Significant progress has been made: employment increased by 2 million during the last Parliament and is still rising.<sup>54</sup> Long-term unemployment has fallen by 274,000 since 2010<sup>55</sup> and the claimant count rate is now 2.3%, the lowest rate since 1975.<sup>56</sup>

**1.129** As the numbers claiming unemployment benefits come down, spending on employment programmes can also fall. But at the same time, there is more to do to ensure that as many people as possible can benefit from the growing economy and higher wages. The Spending Review and Autumn Statement announces further measures to support people into work:

- doing more to get people into work and make the system fairer – Universal Credit will **extend the same Jobcentre Plus support that people on Jobseeker's Allowance (JSA) get to 1.3 million additional claimants who currently get little or no support, by 2020**
- doing more at the start of a JSA claim to stop people starting a life on benefits – requiring jobseekers to **attend the jobcentre weekly for the first 3 months and bringing forward the more intensive support element of the Help to Work programme** currently in place for the long-term unemployed
- introducing **a new Work and Health Programme** after current Work Programme and Work Choice contracts end, to provide specialist support for claimants with health conditions or disabilities and those unemployed for over 2 years

**1.130** Increasing employment levels amongst people with disabilities and health conditions is a key part of the government's aim to achieve full employment. In the last year, the number of disabled people in employment has risen by 70,000 to over 3.2 million.<sup>57</sup> But the benefit system continues to deliver poor outcomes for people with disabilities and health conditions.

**1.131** Universal Credit will provide greater up-front support for claimants with disabilities and health conditions from the start of their claim and enable them to be referred to specialist support from day 1 where appropriate. **To support this the Spending Review announces a real terms increase in funding to help people with disabilities and health conditions to get work and remain in work.** This includes:

- **a real terms increase in spending on Access to Work**, providing specialist IT equipment, or support workers, to help a further 25,000 disabled people each year remain in work
- **expanding the Fit for Work service** supporting more people on long-term sickness absence with return to work plans
- **over £115 million of funding for the Joint Work and Health Unit**, including at least £40 million for a health and work innovation fund, to pilot new ways to join up across the health and employment systems

**1.132** In addition to these measures the government wants to improve links between health services and employment support, recognising timely access to health treatments can help individuals return to work quicker. **The government will publish a White Paper in the New Year that will set out reforms to improve support for people with health conditions**

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<sup>54</sup> Labour Market Statistics, A01, Office for National Statistics.

<sup>55</sup> Labour Market Statistics, UNEM01 SA, Office for National Statistics.

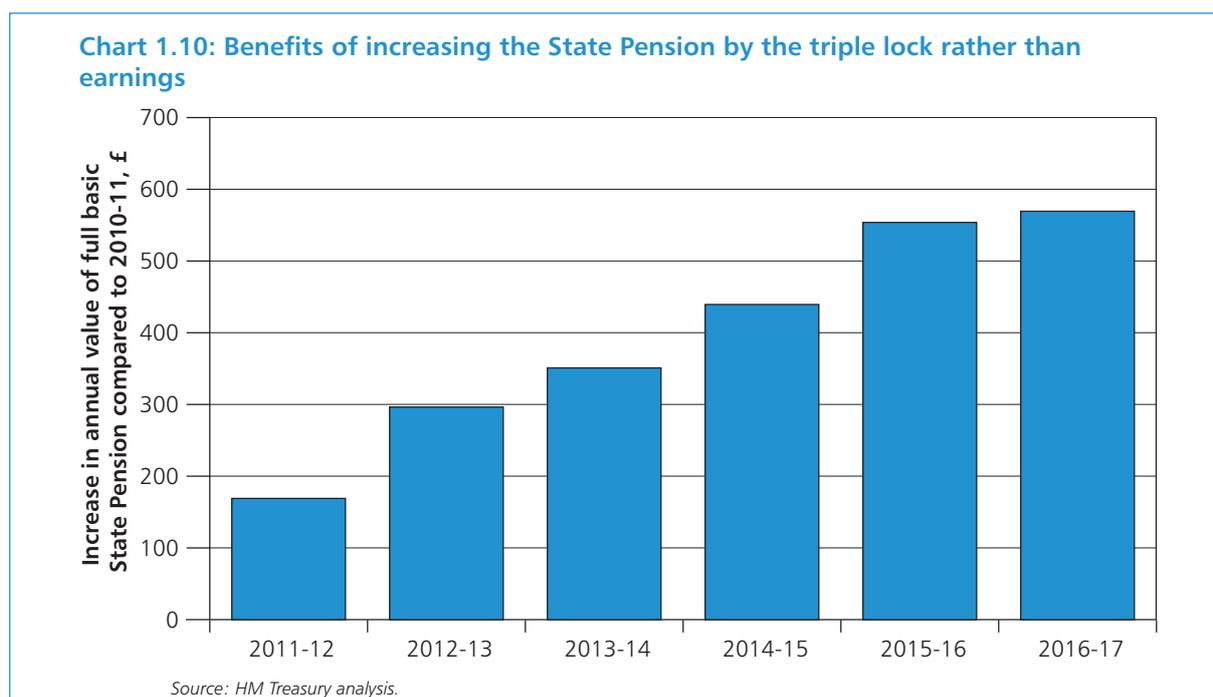
<sup>56</sup> Labour Market Statistics, CLA01, Office for National Statistics.

<sup>57</sup> Labour market status of disabled people, Office of National Statistics, November 2015.

and disabilities, including exploring the roles of employers, to further reduce the disability employment gap and promote integration across health and employment.

## Support for pensioners

**1.133** The government guarantees that older people are able to live with dignity and security in retirement. **That is why, in April 2016, the basic State Pension will once again be increased by the triple lock.** This means that a full basic State Pension will rise to £119.30 a week, an increase of £3.35 and **the biggest real terms increase to the basic State Pension since 2001.** As a result, someone on a full basic State Pension can expect to receive around £570 more a year in 2016-17 than if it had been uprated by average earnings since the start of the last Parliament, as shown in Chart 1.10 below. This is around £1,125 a year more overall than they received in 2010-11.



**1.134** The government is also simplifying the State Pension and providing more support for the poorest pensioners. **From April 2016, those reaching pensionable age will receive a new, 'single-tier' pension with a starting rate of £155.65.** This meets the government's commitment to set the new rate above the current means-tested benefit for the lowest income pensioners (the Standard Minimum Guarantee in Pension Credit). Those reaching pensionable age before the reforms are introduced will receive their State Pension in line with the current rules.

**1.135** **The single rate of the Standard Minimum Guarantee will increase by £4.40 to £155.60 per week in April 2016, a larger rise than the increase in the full basic State Pension.** Support will continue to be focused on the poorest pensioners through the Guarantee Credit. At the same time, **by adjusting the Savings Credit threshold, the Pension Credit awards for those currently receiving Savings Credit will be frozen where income is unchanged.**

### Pension reform

**1.136** The government spends almost £50 billion per year incentivising contributions into pensions.<sup>58</sup> At the Summer Budget, the government launched a consultation on the system of pensions tax relief, to gather evidence and views on whether the current system incentivises

<sup>58</sup> Cost of Registered Pension Scheme Tax Relief, Table PEN 6, HMRC, February 2015.

pension saving. The government received several hundred responses to that consultation, and is considering the options for reform carefully. The government will publish its response at Budget 2016.

**1.137** Over 5.4 million individuals have already been auto-enrolled into a pension, and the government is committed to supporting individuals and businesses through the final stages of its implementation. Opt outs from automatic enrolment have been low and as a result, the number of people who are saving for their retirement is at its highest point since 1997.<sup>59</sup> To simplify the administration of automatic enrolment for the smallest employers in particular, **the next two phases of minimum contribution rate increases will be aligned to the tax years.** Instead of increases taking place in October, they will now occur in April of the following year.

**1.138** The government will today **publish guidance for pooling Local Government Pension Scheme Fund assets into up to 6 British Wealth Funds, containing at least £25 billion of Scheme assets each.** The government is now inviting administering authorities to come forward with their proposals for new pooled structures in line with the guidance to significantly reduce costs while maintaining overall investment performance, with the wider ambition of matching the infrastructure investment levels of the top global pension funds.

## Lower household bills

### Lower energy bills

**1.139** As well as higher wages and pensions, and lower taxes, the government is **implementing a package of measures to reduce the projected cost of green policies on the average annual household energy bill by £30 from 2017.** The bulk of these savings will come from reforms to the current Energy Company Obligation (ECO) scheme. This will be **replaced from April 2017 with a new cheaper domestic energy efficiency supplier obligation which will run for 5 years.** The new scheme will upgrade the energy efficiency of over 200,000 homes per year, saving those homes up to £300 off their annual energy bill, tackling the root cause of fuel poverty and delivering on the government's commitment to help 1 million more homes this Parliament.

**1.140** The government has consulted on changes to the Renewables Obligation and Feed in Tariffs schemes and **will shortly publish a response to the consultations, detailing how to implement cost control on these schemes.** If the proposals are implemented, **this will save the average household around £6 and the average small business user £500 on their energy bills in 2020-21.**<sup>60</sup>

Table 1.8: Spending Review impact on average household energy bills

Policy	Impact on projected household energy bills (nominal), £				
	2016-17	2017-18	2018-19	2019-20	2020-21
New domestic energy efficiency supplier obligation	–	-32	-33	-33	-34
Proposed reforms to the RO and FiTs	–	-2	-4	-5	-6
Energy Intensive Industry exemption from the cost of RO and FiTs, providing certainty to these businesses (see paragraph 1.203)	–	+5	+5	+5	+5
<b>Total bill impact per year:</b>	–	<b>-30</b>	<b>-32</b>	<b>-33</b>	<b>-35</b>

Source: DECC analysis.

Figures may not sum due to rounding.

<sup>59</sup> Official Statistics on workplace pension participation and saving trends of eligible employees: 2004-2014, DWP, 2015.

<sup>60</sup> As defined in 'Estimated impacts of energy and climate change policies on energy prices and bills', DECC, 2014

**1.141** To help ensure that households at risk of fuel poverty can afford to heat their homes **the government will extend the Warm Home Discount to 2020-21** at current levels of £320 million a year, rising with inflation.

**1.142** More competition in energy retail markets could also significantly lower bills for both households and small businesses. The government welcomes the Competition and Markets Authority's (CMA) provisional findings on energy markets and stands ready to take action as necessary to increase competition in energy markets once the CMA publishes its final report next year.

### Lower motor insurance costs

**1.143** The government is determined to crack down on the fraud and claims culture in motor insurance. Whiplash claims cost the country £2 billion a year, an average of £90 per motor insurance policy, which is out of all proportion to any genuine injury suffered.<sup>61</sup> **The government intends to introduce measures to end the right to cash compensation for minor whiplash injuries**, and will consult on the details in the New Year.<sup>62</sup> This will end the cycle in which responsible motorists pay higher premiums to cover false claims by others. **It will remove over £1 billion from the cost of providing motor insurance and the government expects the insurance industry to pass an average saving of £40 to £50 per motor insurance policy on to consumers.**

### VAT on sanitary products

**1.144** While the government makes the case in the EU for a zero rate of Value Added Tax (VAT) for sanitary products, **a new £15 million annual fund equivalent to the VAT raised each year on sanitary products will support women's charities.** The government will make an initial donation totalling £5 million to support The Eve Appeal, SafeLives, Women's Aid and The Haven. Further donations and recipients will be announced at Budget 2016. The fund will run over the course of this Parliament, or until the UK can apply a zero rate.

## Opportunities for home ownership: Five Point Plan

**1.145 This Spending Review prioritises housing by doubling the housing budget from 2018-19. It sets out the most ambitious plan since the 1970s to build homes that support working people in their aim to buy their own home.** In the last Parliament, the government took significant steps to support housing supply and low cost home ownership. A reformed planning system, support for SME house builders, and Help to Buy have driven housing starts to a 7 year high and the number of first time buyers increased by almost 60% between 2010 and 2014.<sup>63</sup>

**1.146** The Chancellor set out in the Productivity Plan that there remains more to do, particularly to re-focus support for housing towards low cost home ownership for first time buyers. This Spending Review **sets out a Five Point Plan for housing to:**

- 1 Deliver 400,000 affordable housing starts by 2020-21, focussed on low cost home ownership.** This will include:
  - 200,000 Starter Homes which will be sold at a 20% discount compared to market value to young first time buyers, with a £2.3 billion fund** to support the delivery of up to 60,000 of these, in addition to those delivered through reform of the planning system

<sup>61</sup> <https://www.abi.org.uk/Insurance-and-savings/Topics-and-issues/Personal-injury-claims/Whiplash-claims>

<sup>62</sup> Claimants will still be entitled to claim for 'special damages' (including treatment for any injury if required and any loss of earnings) but entitlement for general damages will be removed.

<sup>63</sup> Council of Mortgage Lenders.

- **135,000 Help to Buy: Shared Ownership homes**, which will allow more people to buy a share in their home and buy more shares over time, as they can afford to. The scheme will be open to all households earning less than £80,000 outside London and £90,000 in London, and will relax and remove previous restrictions such as local authorities' rights to set additional eligibility criteria
- **10,000 homes that will allow a tenant to save for a deposit while they rent.** This will be in addition to 50,000 affordable homes from existing commitments
- **at least 8,000 specialist homes for older people and people with disabilities**

The scale of this programme of house building will require all sectors to play a role in delivery. **As a result, the government will remove constraints that prevent private sector organisations from participating in delivery** of these programmes, including the constraints to bidding for government funding.

- 2 Deliver the government's manifesto commitment to extend the Right to Buy to Housing Association tenants. The number of tenants benefitting from the local authority scheme has increased by 319% since 2012, and now extending the scheme will give 1.3 million households the opportunity to become home owners.<sup>64</sup> **The government will launch a pilot of the Right to Buy with five Housing Associations, to inform the design of the final scheme.**
- 3 Accelerate housing supply and get more homes built by:
  - **bringing forward further reforms** to the planning system, including establishing a new delivery test on local authorities, to ensure delivery against the number of homes set out in Local Plans
  - **supporting the availability of appropriate land for housing, including by releasing public sector land with capacity for 160,000 homes** representing a more than 50% increase on the government's record in the last parliament
  - ensuring the release of unused and previously undeveloped commercial, retail, and industrial land for Starter Homes, and **supporting the regeneration of previously developed brownfield sites in the green belt by allowing them to be developed in the same way as other brownfield land, providing it contributes to Starter Homes, and subject to local consultation**
  - backing SME house builders, including by **amending planning policy to support small sites, extending the £1 billion Builders' Finance Fund to 2020-21, and halving the length of the planning guarantee for minor developments**
  - **offering £2.3 billion in loans to help regenerate large council estates and invest in infrastructure needed for major housing developments**
  - **investing £310 million to deliver the first new garden city in nearly 100 years, at Ebbsfleet.** This is part of a wider £700 million programme of regeneration at Barking Riverside, Brent Cross, Northstowe and Bicester Garden Town. Together these will support up to 60,000 new homes

<sup>64</sup> Live Table 671: Annual Right to Buy sales, Department for Communities and Local Government.

- 4 **Extend the Help to Buy: Equity Loan scheme to 2021 and create a London Help to Buy scheme, offering a 40% equity loan in recognition of the higher housing costs in the capital.** The scheme will offer buyers with a 5% deposit a loan of up to 40% of the value of a new build home, interest-free for 5 years. This can be used in conjunction with the new Help to Buy: ISA launching on 1 December. First time buyers that save in a Help to Buy: ISA will receive a 25% government bonus on top of their own savings, up to a maximum government bonus of £3000, which can be put towards the purchase of their first home.
- 5 **Higher rates of Stamp Duty Land Tax (SDLT) will be charged on purchases of additional residential properties, such as buy to let properties and second homes, with effect from 1 April 2016.** The higher rates will be 3 percentage points above the current SDLT rates. The government will use some of the additional tax collected to provide £60 million for communities in England where the impact of second homes is particularly acute. The tax receipts will help towards doubling the affordable housing budget. This will help first time buyers.

### **1.147 Taken together the capital programme, loan schemes, Help to Buy and other measures amount to over £20 billion investment in housing over the Spending Review period.**

**1.148** The government remains committed to improving the transparency of mortgage fees and making it easier for borrowers to choose the best mortgage deals. It welcomes the significant step by the industry today in committing to several important actions including to standardise the presentation and definition of mortgage fees. These are the key recommendations from the joint report published today by Which? and the Council of Mortgage Lenders, which was requested by the government at Autumn Statement 2014.

### **Homelessness**

**1.149** To continue to protect the most vulnerable, the government will increase the funding available to invest in innovative ways of preventing and reducing homelessness, including:

- protecting Department for Communities and Local Government (DCLG) funding for targeted homelessness intervention
- devolving an increased level of funding to local authorities while ending the current management fee for temporary accommodation, giving them greater flexibility to invest in preventing homelessness
- providing £40 million for services for victims of domestic abuse, tripling the dedicated funding provided compared to the previous four years and complementing the wider violence against women and girls strategy

## **Ensuring a fair contribution through the tax system**

**1.150** The government remains committed to a competitive tax system with lower rates and high allowances delivering lower taxes for businesses and individuals. But the tax system also needs to be fair. The government will therefore continue to address imbalances in the system where some individuals and businesses benefit disproportionately from certain rules – and will also continue to tackle avoidance, evasion, non-compliance and tax planning.

### **Venture Capital Schemes**

**1.151** To ensure the tax-advantaged venture capital schemes continue to provide effective and sustainable support to small and growing businesses, **the government will amend the eligibility criteria of the schemes to exclude all energy generation activities.**

The government will also continue to explore options to introduce increased flexibility for replacement capital within the schemes.

### Tackling tax avoidance

**1.152 The government will introduce a new penalty of 60% of the tax due to be charged in all cases successfully tackled by the General Anti Abuse Rule (GAAR) and will make small changes to the GAAR's procedure to improve its ability to tackle marketed avoidance schemes.**

**1.153 New rules will be introduced to stop avoidance of stamp tax where 'deep in the money' options are used to transfer shares to a depositary receipt issuer or clearance service.** To reduce opportunities for income to be converted to capital to gain a tax advantage, **the government will shortly publish a consultation on the company distributions rules, and will amend the Transactions in Securities rules and introduce a Targeted Anti-Avoidance Rule.**

**1.154** The government is aware of tax planning around the intangible fixed assets regime used to obtain more generous corporation tax relief than is intended by the legislation. **It will therefore amend the regime to stop arrangements that use partnerships to obtain relief that was not intended. The government will also amend legislation to counter two types of avoidance involving capital allowances and leasing,** which involve businesses artificially increasing the value of their capital allowances or lowering the amount of tax which they pay.

## Investing in Britain's future

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**1.155** Because the government is taking the necessary steps to put the public finances in order, it can make the long term investment needed to build a prosperous nation. This means investing in education from childcare to college. It means transport and infrastructure that compares with the best in the world. It means promoting a dynamic economy and creating the conditions for British businesses to succeed. Together, these will drive productivity, and improve prosperity for working people.

**1.156** The government is already implementing its plan for productivity set out at Summer Budget, in 'Fixing the Foundations: creating a more prosperous nation'.<sup>65</sup> Major steps forward include: introducing the Housing and Planning Bill to boost house building and accelerate planning decisions; signing new devolution deals with Sheffield, the North East, Tees Valley, Liverpool and the West Midlands; launching the Cutting Red Tape Programme to help cut at least £10 billion of unnecessary regulation; and publishing new proposals to increase the quality of teaching and student choice in higher education.

**1.157** The government is also working closely with businesses, particularly the Productivity Leadership Group chaired by Sir Charlie Mayfield and an investment industry group led by the Investment Association, to identify steps the private sector can take to incentivise long term investment and raise productivity. The government encourages all stakeholders, including shareholders and company boards, to engage with these issues and is exploring specific steps that could help.

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<sup>65</sup><https://www.gov.uk/government/publications/fixing-the-foundations-creating-a-more-prosperous-nation>

## Investing in education, skills and children

**1.158** This Spending Review and Autumn Statement prioritises investment in children's education from childcare to college and ensures that children from all backgrounds have the chance to succeed. **Including childcare, total spending on education will increase in cash terms in this Spending Review, from £60 billion in 2015-16 to nearly £65 billion in 2020.**<sup>66</sup> The government is making the highest ever real terms investment in childcare and apprenticeships, and is also protecting the schools budget in real terms and the national base rate per student for 16 to 19 year olds.

**1.159** The government will focus on improving standards in education, by reforming how funding is allocated to make it fairer and improving the quality of education providers. This will help to tackle the long standing productivity gap with our major competitors. The Spending Review and Autumn Statement also delivers support for working families, continuing free school meals for all infants.

## Giving children the best start in life

### Childcare

**1.160** From 2019-20, the government will spend over £6 billion a year supporting parents with their childcare costs. This includes doubling the free childcare entitlement from 15 hours to 30 hours a week for working families with three and four year olds from September 2017, worth up to £5,000 per child. It also includes introducing Tax-Free Childcare from early 2017, providing up to £2,000 a year per child to help working parents with their childcare costs. This means that, starting from 2017, a family with two children can begin to claim childcare support worth up to £40,000 through free hours and Tax-Free Childcare by the time both children are at school. **The Autumn Statement and Spending Review sets an upper income limit per parent of £100,000 and a minimum weekly income level per parent equivalent to 16 hours (worked at the National Living Wage) to the extended free childcare entitlement and Tax-Free Childcare.** This saves £215 million by 2020-21.

**1.161** The government has also undertaken a review of the cost of childcare provision, and from 2017-18 will invest £300 million to increase the average hourly rate childcare providers receive, and at least £50 million of capital funding to create additional places in nurseries. This will be delivered alongside the introduction of a national early years funding formula and other reforms, to ensure funding is fairly allocated.

### Children's services

**1.162** The government will maintain in cash terms the Department for Education's central children's services budget at over £300 million per year, to help drive up social care workforce standards to improve support for vulnerable children.

### Schools

**1.163** The Spending Review protects the core schools budget in real terms, enabling the per pupil rate for the Dedicated Schools Grant to be protected in cash terms, including £390 million of additional funding given to the least fairly funded areas in 2015-16. The pupil premium will also be protected at current rates.

**1.164** Funding for universal infant free school meals will also be maintained, saving families around £400 for every infant each year.

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<sup>66</sup>Department for Education and Department for Business, Innovation and Skills data, HM Treasury Internal Calculations, 2015.

**1.165 The government will introduce the first ever national funding formula for schools, high needs and early years, so that funding is transparently and fairly linked to children's needs.** This will end the unfair system where a child from a disadvantaged background in one school attracts half as much funding as a child in identical circumstances in another school, simply because of where they live.

**1.166** This reform will give schools more certainty over future budgets, empowering head teachers to take decisions for the long term. **The government will launch a detailed consultation in 2016 and implement the new formulae from 2017-18.** There will be a transitional period to help smooth the implementation of the new formula.

**1.167 The government is investing £23 billion in school buildings, opening 500 new free schools, creating 600,000 school places, rebuilding and refurbishing over 500 schools and addressing essential maintenance needs. The government is also investing in new school places for children with special educational needs and disabilities.**

**1.168 The Spending Review and Autumn Statement represents the next step towards the government's goal of ending local authorities' role in running schools and all schools becoming an academy.** This will accelerate the government's ambitious reform programme, giving more power to teachers.

**1.169 The Spending Review and Autumn Statement provides investment of over £1.3 billion up to 2019-20 to attract new teachers into the profession, particularly into Science, Technology, Engineering and Mathematics (STEM) subjects and to deliver the English Baccalaureate (EBacc), to raise educational standards for young people.**

## Investing in skills to equip young people for the future

### 16 to 19 year olds

**1.170** The Spending Review and Autumn Statement announces a cash terms protection of the current national base rate per student for 16 to 19 year olds in school sixth forms, sixth form colleges and further education colleges in England for the rest of the Parliament.

**1.171 As part of the government's one-off restructuring of post-16 education and training, Sixth Form Colleges in England will be given the opportunity to become academies, allowing them to recover their non-business VAT costs.** They will have the option of joining a Multi Academy Trust if they choose to, which will help drive up standards and improve efficiency of 16-19 education by enabling further collaboration between schools and Sixth Form Colleges.

### Apprenticeships

**1.172 Apprenticeships are now the cornerstone of the skills system and 3 million apprenticeships will have started by 2020. By 2019-20 government spending on apprenticeships, including income from the new apprenticeship levy, will be double the level of spending in 2010-11 in cash terms.**

**1.173 The apprenticeship levy on larger employers announced in the Summer Budget will be introduced in April 2017. It will be set at a rate of 0.5% of an employer's paybill. Each employer will receive an allowance of £15,000 to offset against their levy payment. This means that the levy will only be paid on any paybill in excess of £3 million and that less than 2% of UK employers will pay it.**<sup>67</sup> The levy will be paid through Pay As You Earn. By 2019-20, the levy will raise £3 billion in the UK. Spending on

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<sup>67</sup> HM Revenue and Customs analysis, 2015.

apprenticeships in England will be £2.5 billion, and Scotland, Wales and Northern Ireland will receive their fair share of the levy.

**1.174** The levy will put control of apprenticeship funding in the hands of employers and will encourage employers to invest in their apprentices and take on more. **Employers in England who pay the levy and are committed to apprenticeship training will be able to get out more than they pay into the levy, through a top-up to their digital accounts.** All employers who do not pay the levy will be able to access government support for apprenticeships.

**1.175** As well as increasing the numbers of apprentices the government will ensure quality is increased too. **The government will establish a new employer-led body to set apprenticeship standards and ensure quality.** The body will be independent of government and will also advise on the level of levy funding each apprenticeship should receive. Funding caps will be significantly higher for programmes which have high costs and are of high quality.

**1.176** Colleges currently receive approximately a third of apprenticeship spending. Key providers, including colleges will be able to benefit from the significant increase in apprenticeship spending of almost £900 million by 2019-20.

### Adult skills

**1.177 The government will protect funding for the core adult skills participation budgets in cash terms, at £1.5 billion.** Savings will be made from non-participation budgets and efficiencies will be delivered through locally-led Area Reviews, which will be supported with additional government funding and will ensure the further education sector is financially resilient and meets local economic needs. This will enable around 1.7 million learners each year to develop the skills employers need with better targeted basic skills provision alongside high-quality professional and technical education at higher levels.

**1.178 The government will create 5 National Colleges and will support a new network of Institutes of Technology across the country.**<sup>68</sup> National Colleges will train an estimated 21,000 students by 2020 in industries that are crucial to our productivity agenda.

**1.179 The government will expand tuition fee loans to 19 to 23 year olds at levels 3 and 4, and 19+ year olds at levels 5 and 6 to provide a clear route for learners to develop high-level technical and professional skills.** This will benefit an estimated 40,000 students a year. The government will also consult on introducing maintenance loans for people who attend specialist, higher-level providers, including National Colleges.

### Higher education

**1.180** Higher education is a major success story of the UK economy with more universities in the world rankings than any country outside the US. Universities have higher income today than in 2010.<sup>69</sup> **The removal of the student numbers cap enables English universities to plan to recruit 130,000 more domestic and EU students, expanding the opportunity of a degree and increasing income by £1.3 billion by 2020.**<sup>70</sup>

**1.181** International students are integral to the success of UK universities and the economy. The government is committed to strong growth in students from outside the EU, supporting the £30 billion education exports ambition. **The number of students from outside the EU at English universities is expected to rise by 55,000, worth more than £1 billion, by**

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<sup>68</sup> Subject to final due diligence, these National Colleges will be: The National College for Digital Skills (London); The National College for High Speed Rail (Birmingham and Doncaster); The National College for Nuclear (Somerset and Cumbria); The National College for Onshore Oil and Gas (Blackpool); and The National College for Creative and Cultural Industries (Essex).

<sup>69</sup> Higher Education Funding Council for England (HEFCE) analysis. 2015.

<sup>70</sup> English higher education institutions' forecasts, from Higher Education Funding Council of England (HEFCE), 2015.

**2020.<sup>71</sup> To ensure universities can continue to compete with the US, Australia and Canada for top international students, dependants of postgraduates on courses lasting more than a year will be welcome to come and work. Current English language requirements will be maintained.**

Table 1.9: Student numbers and associated income

	2015-16	2016-17	2017-18	2018-19	2019-20	Total growth
Home and EU students (FTE)	1,300,000	1,340,000	1,370,000	1,400,000	1,440,000	130,000
Home and EU income (£m)	9,200	9,700	10,000	10,200	10,400	1,300
Non-EU students (FTE)	260,000	280,000	300,000	310,000	320,000	55,000
Non-EU income (£m)	3,800	4,200	4,600	4,700	4,900	1,000

Source: English universities' forecasts, Higher Education Funding Council of England (HEFCE).

Figures may not sum due to rounding.

**1.182** More disadvantaged students than ever before are entering higher education and universities' spending on access has risen by almost 70% to £730 million since 2010.<sup>72</sup> **The government will work with the Director of Fair Access to ensure universities take more responsibility for widening access, including collaborating on outreach to reduce inequality in admissions.**

**1.183** Financial support for higher education will be increased substantially to enable people to study for a degree. **The government will lift the age cap on new loans to postgraduates from 2016-17 so they are available to all those under 60. Following a sharp decline in part-time students since 2008, the government will introduce new part-time maintenance loans from 2018-19 to support the cost of living while studying.** The government expects 150,000 part-time students could benefit each year by the end of the Parliament. **For all STEM subjects, tuition loans will be extended to students wishing to do a second degree from 2017-18.**

**1.184** Widening the range of higher education providers stimulates competition, increases choice for students and addresses skills gaps. The government will run a £20 million competition to set up a new Institute of Coding that will train the next generation in higher level digital skills. **Support will be provided to secure launch funding to create a new university in Hereford focused on engineering in 2016 (subject to relevant approvals). The government will help to fund the £100 million development of a new campus in Battersea for the Royal College of Art (subject to relevant approvals).**

## Investing in science

**1.185** The government will continue to prioritise investment in science to ensure the UK remains a world class centre of research. Already the UK is attracting more research and development (R&D) investment from abroad than China, Japan, Canada and Russia combined.<sup>73</sup> The Spending Review and Autumn Statement reasserts the government's firm commitment to the UK remaining at the forefront of world science by:

<sup>71</sup> English higher education institutions' forecasts, from Higher Education Funding Council of England (HEFCE), 2015.

<sup>72</sup> Access Agreement and Widening Participation Strategic Assessment Monitoring, Office for Fair Access, 2010-11; Access Agreement for 2015-16: Key Statistics and Analysis, Office for Fair Access, 2015-16.

<sup>73</sup> 'Global competitiveness index 2014-15', World Economic Forum, 2014; 'Main science and technology indicators', OECD, 2015.

- **protecting today's £4.7 billion science resource funding in real terms for the rest of the Parliament.<sup>74</sup> This includes a new £1.5 billion Global Challenges fund to ensure UK science takes the lead in addressing the problems faced by developing countries whilst developing our ability to deliver cutting-edge research**
- **delivering on the long term science capital commitment of £6.9 billion between 2015-2021 to support the UK's world-class research base. This includes up to £150 million (total capital and resource) to launch a competition for a Dementia Institute, to build on the UK's strengths in medical research**

**1.186 The government is taking forward the recommendations of Paul Nurse's independent review and, subject to legislation, will introduce a new body – Research UK – which will work across the seven Research Councils.** This will take the lead in shaping and driving a strategic approach to science funding, ensuring a focus on the big challenges and opportunities for UK research. **The government will also look to integrate Innovate UK into Research UK in order to strengthen collaboration between the research base and the commercialisation of discoveries in the business community.** Innovate UK will retain its clear business focus and separate funding stream.

**1.187 The government will also take forward a review of the Research Excellence Framework in order to examine how to simplify and strengthen funding on the basis of excellence, and will set out further details shortly.**

**1.188 The Spending Review and Autumn Statement extends the freedoms granted to Research Institutes at Budget 2015 to all Department for Business, Investment and Skills (BIS) Sector Research Establishments which are not public corporations, and will also grant access to accumulated reserves of commercial income, subject to a cap.**

**1.189 Over £130 million capital will be invested in Department for Environment, Food and Rural Affairs' (DEFRA) science facilities. As part of this, the Centre for Environment, Fisheries and Aquaculture Science will receive £5 million funding to improve its headquarters in Lowestoft, with further consideration of its capital requirements following the completion of a five-year plan to renovate the site and further commercialise the business.**

**1.190 In order to continue to support innovative businesses, the British Business Bank will retain the £400 million of additional funding for Enterprise Capital Funds that was announced at Autumn Statement 2014 within its long term funding envelope.**

## Investing in economic infrastructure

### Infrastructure

**1.191** The Spending Review and Autumn Statement delivers the high-quality infrastructure needed to build and sustain a more productive economy. Investment in infrastructure will deliver growth today as projects are built, and growth tomorrow as the benefits are felt. The government has set up the National Infrastructure Commission (NIC) to provide expert independent advice on the UK's infrastructure priorities and hold governments to account for their delivery.

**1.192 The government will publish a National Infrastructure Delivery Plan next spring, setting out in detail how it will deliver key projects and programmes over the next 5 years.**

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<sup>74</sup> Department of Business, Innovation and Skills settlement figures, 2015.

**1.193 The government's spending means it more than meets its commitment to invest £100 billion in infrastructure in this Parliament – it will spend £120 billion.** Since the Summer Budget, the government has increased its overall capital departmental investment plans by £12 billion between 2016-17 and 2020-21, and has brought investment forward into 2016-17 and 2017-18. Table 1.10 illustrates the government's current and future capital spending throughout the UK.

**1.194 Private investment is key to delivering our infrastructure, and the government will therefore extend the availability of the £40 billion UK Guarantees Scheme to March 2021, to continue to help infrastructure projects raise finance from banks and the capital markets.**

Table 1.10: selected investment in economic and social infrastructure

	£ billion						Total
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	
<b>Existing long term capital plans</b>							
i Roads Investment Strategy	1.8	1.8	2.2	2.5	3.0	3.9	15.2
ii Highways maintenance	1.0	1.0	1.0	1.0	1.0	1.0	6.9
iii Network Rail <sup>1</sup>	6.8	7.4	5.6	4.3	5.0	5.3	34.5
iv High Speed 2	0.8	0.8	1.7	2.9	4.8	4.8	15.8
v Flood and coastal defence programme	0.4	0.4	0.4	0.4	0.4	0.4	2.3
vi Science: capital	1.1	1.1	1.1	1.2	1.2	1.2	6.9
vii Existing housing and regeneration plans <sup>2</sup>	1.0	1.0	1.0	1.0	1.0	1.0	5.9
viii Existing school building plans	4.6	4.8	3.8	3.2	3.0	2.8	22.2
<b>Additional investment announced at Spending Review 2015</b>							
ix Housing and regeneration	–	0.0	0.3	1.2	1.1	1.4	4.1
x Local Sustainable Transport Fund	–	0.1	0.1	0.1	0.1	0.1	0.5
xi Large Local Major Roads	–	0.0	0.0	0.0	0.1	0.3	0.5
xii New school building plans	–	0.3	0.8	1.3	1.5	1.8	5.7
<b>Infrastructure investment</b>	<b>17.5</b>	<b>18.7</b>	<b>18.0</b>	<b>19.1</b>	<b>22.1</b>	<b>23.9</b>	<b>120.4</b>

<sup>1</sup> Spending in Capital AME. The Network Rail capital grant and borrowing limit has been set for the period 2014-15 to 2018-19. In 2019-20 and 2020-21 the totals are as set out in the OBR's capital AME forecast. In advance of the government confirming investment plans for years beyond 2018-19, the OBR have forecast these totals on the basis of a neutral assumption for spending in that period.

<sup>2</sup> Assumes continuation of previous policy into 2020-21.

Figures may not sum due to rounding.

## Transport

**1.195 The government is making the biggest investment in transport infrastructure in generations.** The government will invest £61 billion in transport this Parliament,<sup>75</sup> an increase of £20 billion compared to the previous parliament. In this Spending Review and Autumn Statement, the government is confirming investment in the Network Rail investment programme<sup>76</sup> as well as capital expenditure over the next 5 years of £46.7 billion by the Department for Transport (DfT) – including starting construction on High Speed 2 (HS2) and confirming £13.4 billion to continue to deliver the Roads Investment Strategy. The government is also driving forward with major improvements to transport in the Northern Powerhouse.

### Roads

**1.196** The Roads Investment Strategy signals the biggest investments in roads since the 1970s. This overall £15 billion of investment in the Roads Investment Strategy period will include resurfacing over 80% of the strategic road network, and delivering over 1,300 miles of additional lanes, the equivalent of travelling from Bristol to Newcastle four times. Future roads investment will be underpinned by a new Roads Fund paid for directly from the revenues of Vehicle Excise Duty from 2020-21. **An ambitious second Roads Investment Strategy will be published before the end of this Parliament setting out how the Roads Fund will be invested.**

**1.197** In addition the Spending Review and Autumn Statement provides £250 million over the next 5 years to tackle the potholes that blight our local roads, on top of nearly £5 billion of funding for roads maintenance, a £300 million increase compared to the previous Parliament.

### Rail

**1.198** The government will deliver on commitments to freeze regulated rail fares at no more than inflation (RPI) for the entire Parliament, and will go even further with action to ensure that rail passengers have access to compensation when trains are more than a few minutes late.

**1.199** The Spending Review and Autumn Statement provides £475 million over the next 5 years to fund large local transport projects, enabling local areas to bid for funding for projects that would be too expensive for them to pay for by themselves, such as the Lowestoft Third River Crossing and the North Devon Link Road.

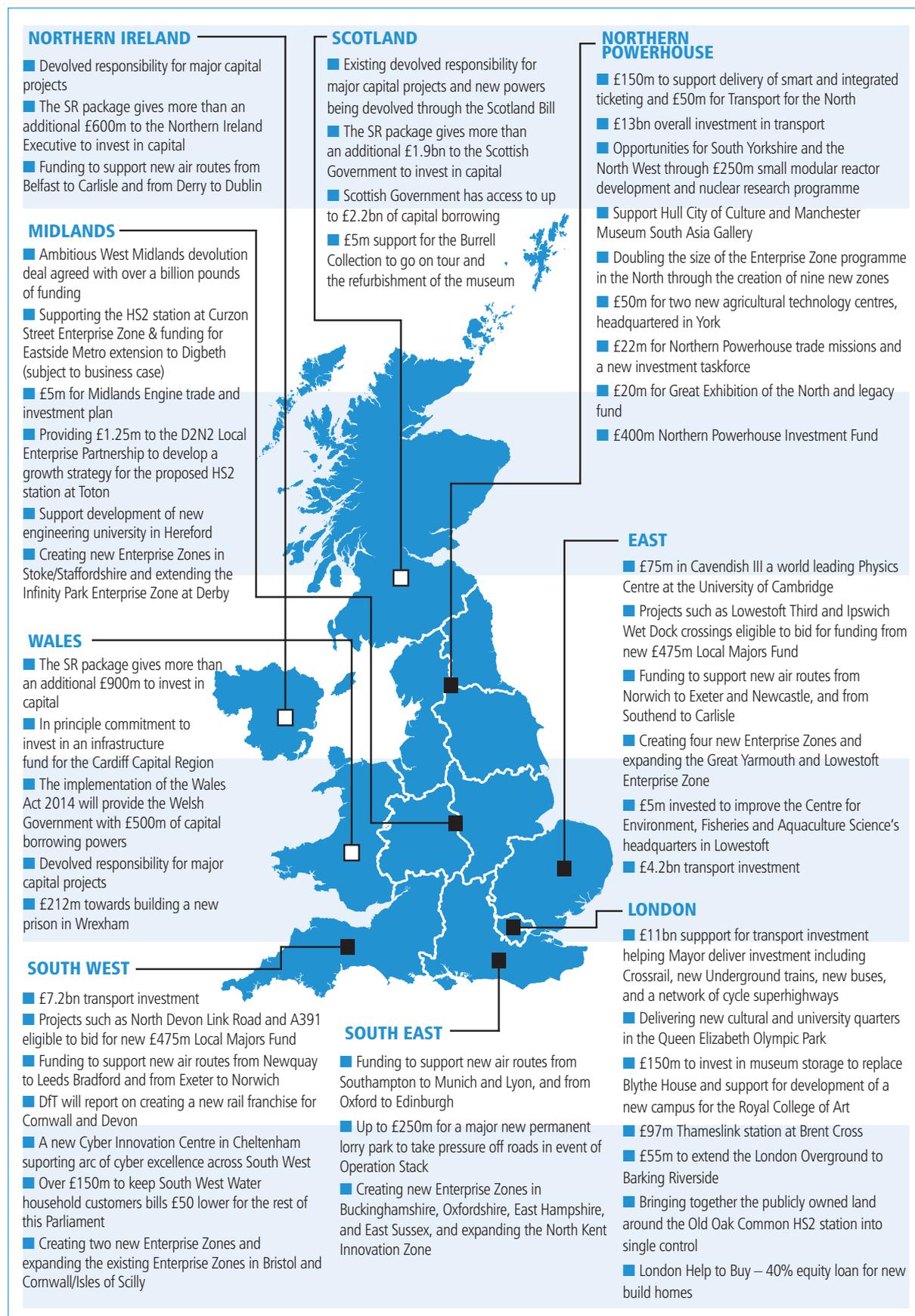
**1.200** The Spending Review and Autumn Statement provides £300 million over the next 5 years for a new Transport Development Fund, for the next generation of transport infrastructure projects. This could include providing development funding for projects such as Crossrail 2 and proposals emerging from the Northern Transport Strategy, following advice from the NIC at Budget 2016.

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<sup>75</sup>This includes Network Grant to Network Rail and LGF contribution from the DfT budget to enable comparison over time periods.

<sup>76</sup>Network rail spending scores as Capital AME within the Department for Transport. The number in table [T06] sets out the CAME forecast for network rail spending from 2015-16 until 2020-21 including grants provided by Transport for Scotland, and is consistent with delivering their £38 billion planned investment within Control Period 5 (2014-19).

Figure 1: Investment across the United Kingdom



## Energy

**1.201** The government will prioritise energy security, whilst making reforms to meet our climate goals at lower cost. **The government is doubling spend on energy innovation, to boost energy security and bring down the costs of decarbonisation.**

**1.202** As part of this, the Spending Review and Autumn Statement invests at least £250 million over the next 5 years in an ambitious nuclear research and development programme that will revive the UK's nuclear expertise and position the UK as a global leader in innovative nuclear technologies. This will include a competition to identify the best value small modular reactor design for the UK. This will pave the way towards building one of the world's first small modular reactors in the UK in the 2020s. Detailed plans for the competition will be brought forward early next year.

**1.203** The government will provide an exemption for Energy Intensive Industries, including the steel industry, from the policy costs of the Renewables Obligation and Feed-in Tariffs, to ensure that they have long-term certainty and remain competitive.

**1.204** The government will increase funding for the Renewable Heat Incentive to £1.15 billion by 2020-21, while reforming the scheme to deliver better value for money. By the end of the Parliament the government expects to have incentivised enough additional renewable heat to warm the equivalent of over 500,000 homes.

**1.205** The government will also continue to make the most of domestic resources and manage our energy legacy safely and responsibly. **The government will commit up to 10% of shale gas tax revenues to a Shale Wealth Fund, which could deliver up to £1 billion of investment in local communities hosting shale gas developments, in the north of England and other shale-producing regions.**<sup>77</sup> It will also give the Oil and Gas Authority additional powers to scrutinise companies' offshore decommissioning plans and take action to ensure they represent value for money.

### Company car tax

**1.206** The government is retaining the diesel supplement in company car tax until 2021, when EU-wide testing procedures will ensure new diesel cars meet air quality standards even under strict real world driving conditions.

## Supporting the arts, culture and sport

**1.207** The government is committed to supporting the arts and our world class national museums and galleries which make a rich contribution to society and our economy. **The government will ensure that these sectors have the same amount of government funding in cash terms in 2019-20 as they do today.**

**1.208** In 2014, there were 34 million overseas visitors who contributed over £28 billion to the UK economy, making travel and tourism one of the UK's largest service exports.<sup>78</sup> **Recognising this, the government will increase support to tourism by creating a new £40 million Discover England Fund to boost tourism across England.**

**1.209** The Spending Review and Autumn Statement makes permanent the operational and financial freedoms for national museums announced at Spending Review 2013, which will be extended to include the British Film Institute, the National Army Museum, the National Museum of the Royal Navy, the Royal Air Force Museum,

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<sup>77</sup> HM Treasury internal calculations, 2015.

<sup>78</sup> International Passenger Survey, Office for National Statistics, 2015.

**Historic England and the Churches Conservation Trust.** This will support these bodies to move towards greater financial self-reliance and sustainability.

**1.210 To encourage museums and galleries to develop creative new exhibitions and display their collections for a wide audience, the government will explore with the sector the case for introducing a new tax relief for museums and galleries.**

**1.211 The government will fund capital investments in culture across the country through a total of £1.6 billion by 2020-21. The government will invest £78 million capital funding in the Factory Manchester, plus £9 million per year in revenue funding from 2018-19. The government will invest £2.5 million in the Museum of Science and Industry in Manchester, £5 million for a new South Asia Gallery at Manchester Museum, £4 million in Birmingham Dance Hub and £500,000 towards plans to celebrate the 400th anniversary of the Mayflower in Plymouth in 2020. The government will also provide £150 million to provide new world class museum storage facilities to replace Blythe House in London. The government also invites the British Library to develop a business case for a print collections management hub in Boston Spa, Wetherby.**

**1.212 The government is increasing its funding for elite sport to build on the success of Olympic and Paralympic games at London 2012 and support Team GB's ambition for success in Rio 2016 and Tokyo 2020. Following the success of hosting London 2012 and the Rugby Union World Cup the government will support the ambition to host the cycling Road World Championships and 2021 Rugby League World Cup in the Northern Powerhouse.**

## A dynamic economy

### Boosting business

**1.213** Businesses are the lifeblood of the economy, and the government is determined to create the conditions for UK companies to succeed at home and abroad. The UK has risen to be the sixth best place to do business in the world, up from tenth in 2014, and the second best in Europe,<sup>79</sup> and is the best country in the EU to start a business.<sup>80</sup>

**1.214** Since 2010 the headline rate of corporation tax has been cut from 28% to 20%, and will fall further, to 18% by the end of the Parliament. Overall corporation tax cuts since 2010 will save businesses £13 billion a year by 2020-21 and give the UK the lowest tax rate in the G20 (Chart 1.11).<sup>81</sup> To support investment and innovation, the government introduced the Patent Box and overhauled Research and Development tax credits, and announced at Summer Budget that the Annual Investment Allowance will be set at £200,000 – its highest ever permanent level – for the rest of the Parliament.

**1.215** These reforms have enabled the private sector to drive the UK's economic recovery. Since the first quarter of 2010, the private sector has created 2.5 million jobs – more than 5 jobs for every public sector job lost – and business investment has increased by 26%.<sup>82</sup> The Spending Review and Autumn Statement takes further action to boost business. Over £100 billion will be invested to improve infrastructure, and funding for science is being protected in real terms. The Spending Review and Autumn Statement increases investment in catapult centres and protects and extends funding for the Aerospace Technology Institute (ATI) and the Advanced Propulsion Centre (APC).

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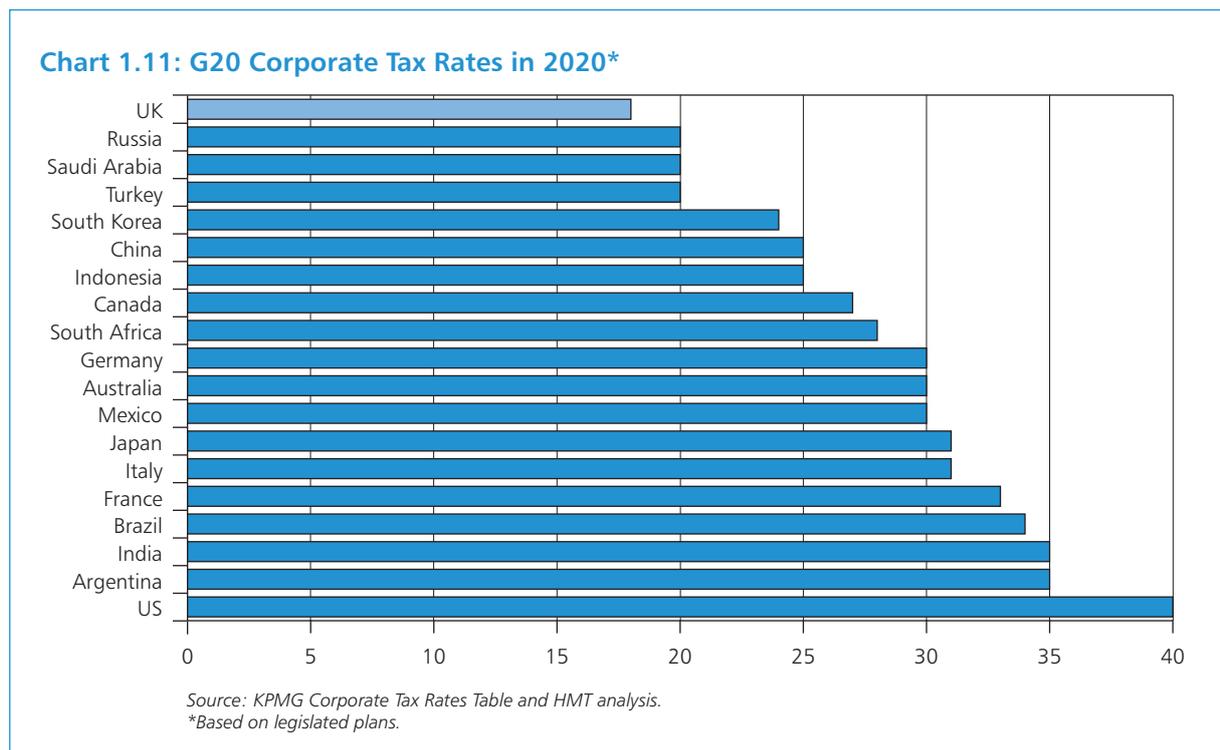
<sup>79</sup> Ease of doing business rankings, World Bank, 2015.

<sup>80</sup> Legatum Institute Prosperity Index, Legatum Institute, 2015.

<sup>81</sup> Corporate tax rates tables, KPMG, 2015.

<sup>82</sup> 'Business Investment', Office for National Statistics, Quarter 2 2015.

**1.216** Businesses will also benefit from the investment the government is making across schools, further education and higher education, as well as the apprenticeship levy which will increase skills and puts control of funding in the hands of employers.



**1.217** Reforms since 2010 have also made the UK more competitive and attractive to inward investors. The UK is the largest recipient for inward investment in the EU and in 2014 the stock of inward investment passed £1 trillion for the first time, an increase of 52% since 2010.<sup>83</sup> **To support trade and investment and meet targets including £1 trillion of exports by 2020, the government will refocus UKTI to enable it to become a world-class export and investment promotion agency.** This will enhance direct support to business and develop the private sector market. **The government will support this through £175 million total reinvestment between 2016-17 and 2019-20 as part of UKTI’s settlement.** This is part of a broader government effort to boost exports, including to build the domestic environment for firms and develop global trade relations. **Alongside this, the government will invest £24 million in digital transformation funding for UKTI to simplify UK trade support online and join up effectively with other government services.**

### Backing small businesses

**1.218** The UK’s small and medium sized enterprises now employ 15.6 million people, up from 13.7 million in 2010. Over the last two years the number of small businesses employing someone other than the owner has grown by 100,000.<sup>84</sup> The government understands that small businesses need tailored support. Already, Start-Up Loans have provided £180 million of funding to 33,600 entrepreneurs and in the last Parliament, the government cut the cumulative burden of regulation by over £10 billion.<sup>85</sup> From April 2016 the Employment Allowance will rise to £3,000, benefiting over 1 million employers, and helping many businesses take on their first employee. The cancellation of the planned September 2015 fuel duty increase means a small business with a van will have saved £1,357 by the end of 2015-16 compared to plans inherited by the government at the start of the last Parliament. At the Spending Review and Autumn

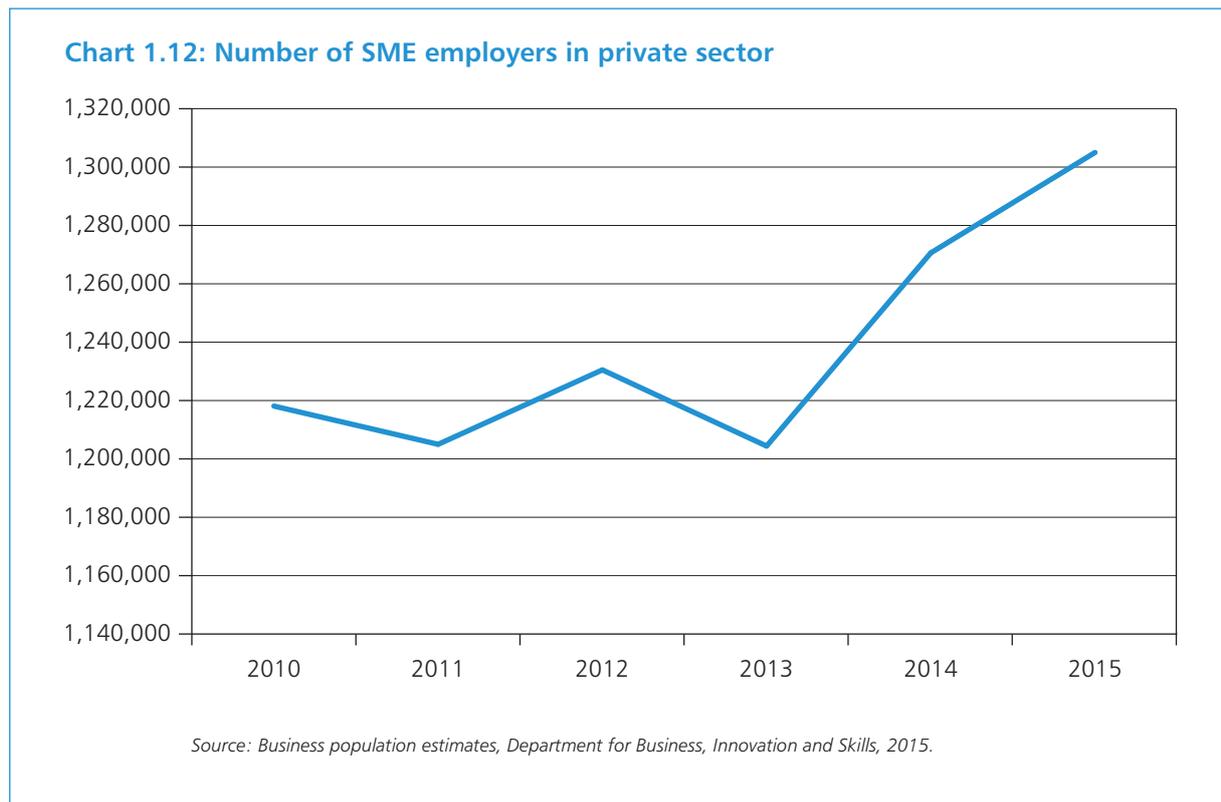
<sup>83</sup> ‘UNCTAD World Investment Report 2015’, United Nations Commission for Trade and Development, 2015; ‘Inward Investment Report 2014 to 2015’, UK Trade and Investment, 2015.

<sup>84</sup> ‘Business Population Estimates’, Office of National Statistics, 2015.

<sup>85</sup> Loans drawn down at end October 2015, Start Up Loans Company, 2015.

Statement small businesses will continue to receive support for apprentices. The apprenticeship levy will only be paid by employers with a paybill of more than £3 million, meaning that less than 2% of UK employers will pay it. The government will meet its commitment to 75,000 Start-Up Loans by the end of this Parliament.

**1.219 The Spending Review and Autumn Statement further supports small businesses by extending the doubling of small business rate relief (SBRR) in England for 12 months to April 2017.** Around 405,000 of the smallest businesses will continue to receive 100% relief from business rates, with around a further 200,000 benefiting from tapering relief.<sup>86</sup> The government is undertaking a review of business rates. The review will be fiscally neutral and will report at Budget 2016.



### Improving competition

**1.220** Open, competitive markets are crucial to a dynamic economy. The UK has a world-leading competition regime, but many markets could work better for households and businesses. Strong competition encourages innovation and efficiency and a better deal for customers. Overly restrictive regulation can also put the brakes on the competitive process and favour incumbent firms and established business models. **The government will announce shortly important steps that follow on from the government's productivity plan, 'Fixing the foundations: creating a more prosperous nation' to improve competition, and will improve markets, reduce household bills and support productive businesses.**

**1.221 To support small and medium sized enterprises (SMEs) in accessing finance, the government plans to designate Experian, Equifax and CreditSafe under the Small and Medium Sized Business (Credit Information) Regulations 2015.** These CRAs will receive SME credit information from designated banks and provide equal access to this information to all finance providers. This is a significant milestone in a major structural reform that will promote competition in the SME credit market.

<sup>86</sup> Department of Communities and Local Government calculation, from National Non-Domestic Rates Return 1 provided by Local Authorities.

**1.222** Competition between broadband providers supports the delivery of the fast and reliable broadband a modern, productive economy needs. Innovative approaches to supporting the market will help deliver ultrafast speeds to nearly all premises. **The government will explore setting up a new broadband investment fund, to support the growth of alternative network developers by providing greater access to finance.** The fund would be supported by both public and private investors, and would be managed by the private sector on a commercial basis.

## A devolution revolution

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**1.223** The government is fundamentally changing the way the country is run, through nothing less than a devolution revolution. Local leaders will have radical new powers to take responsibility for driving local growth. These include allowing them to retain their business rates, agreeing historic devolution deals, creating powerful new metro-mayors, and making further targeted investments in response to local priorities. Strong progress has been made. There were over a million more private sector jobs<sup>87</sup> and over half a million more businesses<sup>88</sup> in England outside London and the South East in 2015 than in 2010. The government is also devolving unprecedented powers to Scotland, Wales and Northern Ireland.

## Devolution across the UK

### Northern Ireland

**1.224** The conclusion last week of the latest phase of political talks in Northern Ireland offers the opportunity for a fresh start for devolved government. The government is supporting the Northern Ireland Executive with a substantial package of new funding and financial flexibility. **The government confirms up to an additional £500 million spending power for the Northern Ireland Executive to support the full implementation of the Stormont House Agreement,** which itself provided the Northern Ireland Executive with new funding and additional flexibility of over £2 billion. This includes additional support of £160 million for the Police Service of Northern Ireland.

**1.225 The Spending Review delivers significant real-terms increases to Northern Ireland Executive capital budgets.** Funding available for infrastructure investment via the block grant through to 2020-21 will rise by 12%, meaning over £600 million more than if it had been held at 2015-16 levels.

**1.226** The government remains committed to the devolution of corporation tax powers to the Northern Ireland Assembly, subject to the Northern Ireland Executive demonstrating that its finances have been put on a sustainable footing and that the range of commitments entered into in the Stormont House Agreement have been met. The Northern Ireland parties have now indicated that they wish to pursue the implementation of a new Northern Ireland rate of 12.5% in April 2018.

**1.227 The government is also providing £7 million through the Regional Air Connectivity Fund to support new air routes promoting domestic and international connectivity and stimulating jobs and growth, including from Belfast to Carlisle and from Derry to Dublin.**

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<sup>87</sup> 'Public Sector Employment', ONS, Q2 2015 (excluding major reclassifications).

<sup>88</sup> 'Business Population Estimate for the UK and Regions', BIS, October 2015.

## Scotland

**1.228** The Scotland Bill, containing significant tax and spending powers, has completed its House of Commons stages and is on track to receive Royal Assent in early 2016. Discussions on the accompanying Fiscal Framework are ongoing, with the Joint Exchequer Committee having met 4 times since May. The Scotland Bill and the Fiscal Framework will mean the Scottish Parliament will become one of the most powerful devolved legislatures in the world. **The government is committed to implementing the Smith Commission Agreement in full.**

**1.229 The Spending Review delivers significant real-terms increases to Scottish Government capital budgets.** Funding available for infrastructure investment via the block grant through to 2020-21 will rise by 14%, meaning over £1.9 billion more than if it had been held at 2015-16 levels.

**1.230** Implementation of the City Deal for Glasgow and the Clyde Valley is now well underway and headline proposals have been received from local partners for Aberdeen and Inverness.

**1.231 The government is also providing £7 million through the Regional Air Connectivity Fund to support new air routes promoting domestic and international connectivity and stimulating jobs and growth, including from Dundee to Amsterdam and from Edinburgh to Oxford.**

**1.232 The government confirms £5 million of funding towards the Burrell Renaissance project.** This will support the collection going on tour, as well as refurbishment of the Grade A listed museum in Glasgow.

## Wales

**1.233 The government is introducing a floor in the level of relative funding provided to the Welsh Government at 115% of comparable spending per head in England.** Funding arrangements in the next Parliament will need to take full account of the Welsh Government's new powers and responsibilities, given the significant impact that tax devolution could have on its funding. The funding floor will therefore be reset at the next Spending Review. **The government will legislate to remove the requirement for the Welsh Assembly to hold a referendum in order to implement the Welsh Rates of Income Tax, to reflect the change in the debate in Wales.**

**1.234 The Spending Review delivers significant real-terms increases to Welsh Government capital budgets.** Funding available for infrastructure investment via the block grant through to 2020-21 will rise by 16%, meaning over £900 million more than if it had been held at 2015-16 levels.

**1.235** The government is working with the Cardiff Capital Region and the Welsh Government to deliver an ambitious City Deal for Cardiff. **The Spending Review announces an in principle commitment to contribute to an infrastructure fund for the Cardiff region.**

**1.236** The government is also investing in projects like the new, modern prison in Wrexham, a £212 million investment which will create 1,000 jobs.

## English Devolution

### Local government reform

**1.237** The devolution revolution sets out a new deal for local government. It requires local authorities to make efficiency savings, but in return offers them unprecedented new levers of power to generate growth for their area. The government will allow local government to keep the rates they collect from business, give councils the power to cut business rates to boost growth, and give elected city-wide mayors the power to levy a business rates premium for local infrastructure projects – with the support of local business.

**1.238** By the end of the Parliament local government will retain 100% of business rate revenues to fund local services, giving them control of £13 billion of additional local tax revenues, and £26 billion in total business rate revenues.<sup>89</sup> The system of top-ups and tariffs which redistributes revenues between local authorities will be retained. The Uniform Business Rate will be abolished and any local area will be able to cut business rates as much as they like, to win new jobs and generate wealth. Fixing the current broken system of financing local government will strengthen incentives to boost growth, help attract business and create jobs.

**1.239** Elected city-wide mayors will be able to add a premium to business rates to pay for new infrastructure, provided they have the support of the local business community through a majority of business members of their Local Enterprise Partnership.

**1.240 DCLG will shortly consult on changes to the local government finance system to pave the way for the implementation of 100% business rate retention by the end of the Parliament.** The consultation will take into account the main resources currently available to councils, including council tax and business rates. As part of these reforms, the main local government grant will be phased out and additional responsibilities devolved to local authorities, empowering them to drive local economic growth and support their local community. For example, the government will consider transferring responsibility for funding the administration of Housing Benefit for pensioners and Transport for London's capital projects to local government and will also consult on options to transfer responsibility for funding public health. The government will consult on these and other additional responsibilities in 2016.

**1.241** Like other unprotected areas of spending, local government will need to make a contribution to fiscal consolidation to ensure that the country is able to live within its means. **But while the main grant to local government will be phased out, this currently represents less than a quarter of local government total resources.** Other sources of income such as council tax and business rates are forecast to grow in cash terms by £6.3 billion by 2019-20, based on the OBR's forecast for local authority self-financed expenditure. Chart 1.13 below shows that taking this into account, overall local government spending is forecast to be higher in cash terms by 2019-20 than in 2015-16,<sup>90</sup> a real terms reduction of 1.7% per year. This is less than the average annual reductions of 2.3% between 2010-11 and 2014-15<sup>91</sup>, when reserves increased by £10 billion.

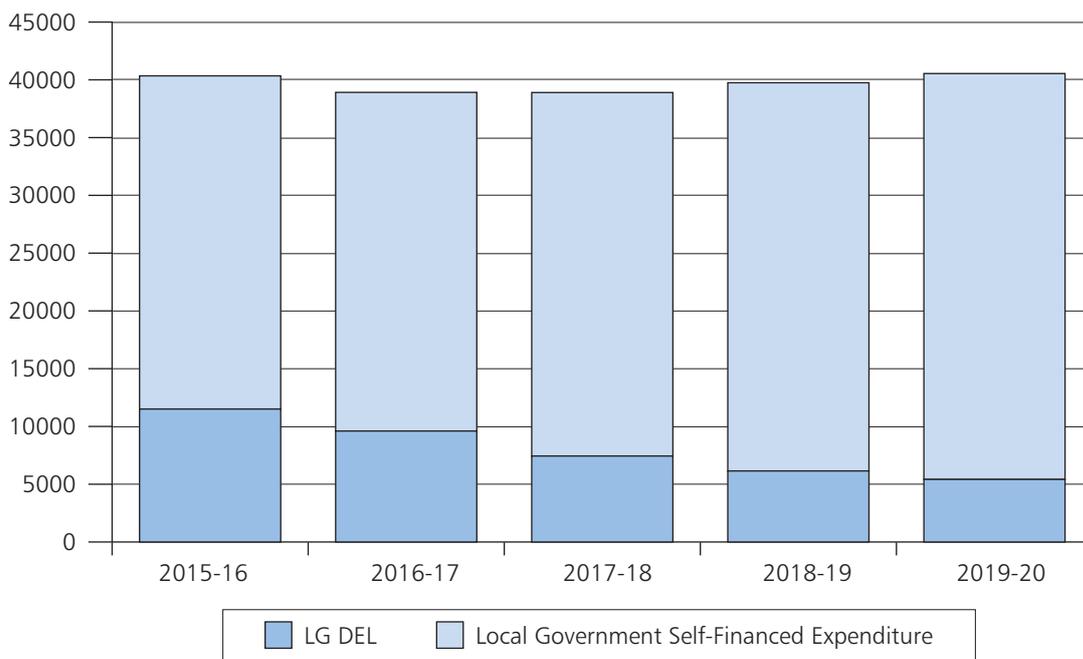
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<sup>89</sup> Economic and Fiscal Outlook, OBR, November 2015.

<sup>90</sup> Compares 2010-11 average council tax bills adjusted in line with CPI with the maximum average 2019-20 bill that can be reached under referendum threshold rules, including new precept flexibilities. Assumes that all authorities apply maximum rises and that no authority holds a successful referendum to increase council tax by more than these thresholds.

<sup>91</sup> HM Treasury analysis based on Public Expenditure Statistical Analyses 2015, HM Treasury, July 2015

**Chart 1.13: Local Government Spending (nominal prices, £m)**



Source: HMT/DCLG analysis based on the OBR forecast for local authority self-financed expenditure. LG DEL refers to general funding paid by DCLG to local government.

### 1.242 The Spending Review and Autumn Statement announces a number of measures to help local authorities, with responsibility for adult social care, meet the needs of their population:

- **these authorities will be given an additional 2% flexibility on their current council tax referendum threshold to be used entirely for adult social care.** If fully used it could raise nearly £2 billion a year by 2019-20 – enough to support more than 50,000 older people in care homes or almost 200,000 in their own homes.<sup>92</sup> Including this precept, by 2019-20, the average Band D council tax bill in England will still be lower in real terms than it was in 2010-11, unless higher increases win the explicit support of local people in referenda
- **in addition the Spending Review makes available social care funds of £1.5 billion by 2019-20 for local government, to be included in an improved Better Care Fund. Together with the social care precept, this will mean that local government has access to the funding it needs to increase adult social care spending in real terms by the end of the Parliament. The government will also shortly consult on changes to the local government finance system to rebalance support including to those authorities with social care responsibilities by taking into account the main resources available to councils, including council tax and business rates**
- **the government will also consult on reforms to the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from 6 years to 4 years.** This will include a preferred option for savings of at least £800 million, which can be used for social care. Details of both reforms will be set out as part of the local government finance settlement consultation, which will include consideration of proposals to introduce a floor to ensure that no authority loses out disproportionately

<sup>92</sup> Council Tax Levels in England 2015-16, DCLG, July 2015.

## Local Government Efficiency

**1.243** The median annual salary for a County Council, Metropolitan Borough, London Borough and Unitary Council Chief Executive is reportedly higher than the Prime Minister's salary.<sup>93</sup> **The government will issue new guidance to local authorities to encourage them to rein in excessive salaries and do more to drive efficiencies for local taxpayers.**

**1.244** The government is supporting growth and efficiency by enabling the release of public sector assets for more productive use. According to the latest data, local authorities in England hold £225 billion of assets, including over £60 billion in property not used for schools or housing.<sup>94</sup> The Spending Review therefore encourages and empowers local authorities to dispose of potentially surplus assets.

**1.245 To support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects.**

Instead of holding assets that could be made surplus, councils will be able to sell them and reinvest in their services that allow them to deliver more for less – for example in home improvements that can help keep older people from needing to go to hospital. The flexibility to use asset receipts for reform projects will be subject to a number of conditions, including limits on the years in which the flexibility will be offered and the qualifying criteria for reform projects. This detail will be set out by DCLG alongside the Local Government settlement in December.

**1.246 The government will consult on updating the Transparency Code to require all local authorities to record details of their land and property assets in a consistent way on the government's electronic Property Information Management System (e-PIMS).**

**1.247 The Spending Review extends One Public Estate with £31 million funding to support local authorities to work with other local public sector property owners and design more efficient asset management strategies.** The government will shortly announce which local authorities' bids were successful for the third phase of One Public Estate. **The government will also strengthen the existing legislation around Right to Contest to allow local communities to challenge the use of land and property that is in use by local authorities,** not just property that is empty or under-used, where these assets could be made surplus and put to better use.

## Devolution deals

**1.248** Building on the historic settlement with Greater Manchester, this year further devolution agreements have been reached with civic leaders in the Sheffield City Region, the North East, Tees Valley, Liverpool City Region and the West Midlands, giving local areas control over major budgets and responsibilities and creating directly elected mayors. **The government will work towards further devolution deals with other major city regions.**

**1.249 The government is making further progress on devolving powers to Greater Manchester, demonstrating that the first devolution deal is just the start of a closer dialogue between cities and government.** This includes supporting the Greater Manchester Combined Authority to develop and implement an integrated approach to preventative services for children and giving the Greater Manchester Mayor the power to introduce a Community Infrastructure Levy.

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<sup>93</sup> Local government Chief Officers' remuneration, Communities and Local Government Committee, September 2014.

<sup>94</sup> Capital Expenditure and Receipts 2013-14 Summary, DCLG, March 2015.

## Local growth

**1.250** For Britain to fulfil its potential every part of the country must be enabled to achieve its potential. The government is bringing multiple sources of funding together into one clear, single fund. The Local Growth Fund, created following the Heseltine Review, puts money under the direct control of business-led Local Enterprise Partnerships. **The government will deliver its commitment to a £12 billion Local Growth Fund between 2015-16 and 2020-21.** As a result, the government can confirm the indicative Local Growth Fund allocations that were made through Growth Deals, and that Local Enterprise Partnerships will continue to receive core funding from government, matched by local areas. **This is a major step forward in giving local areas greater control over public spending – the Local Growth Fund is more than double the combined size of the Regional Growth Fund, Growing Places Fund and City Deals in the last Parliament.** It empowers local communities to deliver growth by allowing them to respond flexibly to the specific opportunities in their area.

**1.251 The government is creating 26 new Enterprise Zones, including expanding 8 Zones on the current programme. These include 15 Zones in smaller towns and rural areas, spreading Enterprise Zone benefits to 108 sites across the country.** This is in addition to the two announced earlier this year. The government will provide feedback to Local Enterprise Partnerships on unsuccessful applications and, where possible, the government will work with them to consider how the proposals could be improved. Since their start in April 2012, Enterprise Zones have laid down the foundations for success for 540 businesses, attracting over £2.2 billion pounds of private sector investment, building world class business facilities and transport links and attracting 19,000 jobs.<sup>95</sup>

**1.252** The Autumn Statement and Spending Review supports local HS2 Growth Strategies to ensure that areas benefit as much as possible from HS2, enabling regeneration around stations and the improvement of connections to HS2 stations. This includes support for development around the new HS2 stations at Old Oak Common and Birmingham Curzon Street.

## Northern Powerhouse

**1.253** The Northern Powerhouse is the government's plan to boost the economy across the North of England. It is built on the solid economic theory that while the individual cities and towns of the North are strong, if they are enabled to pool their strengths, they could be stronger than the sum of their parts. It means investing in better transport to connect up the North; backing the science and innovation strengths of the North, so that new ideas can be turned into new products and new jobs; investing in culture, housing and the quality of life to make the North a magnet for new businesses and talented people; devolving powers and budgets from London to local areas across the North, and creating powerful new elected mayors who will give people in northern cities and towns a strong voice.

**1.254 In total, the government will spend £13 billion on transport in the North over this Parliament.** The government is building on the progress already made by Transport for the North (TfN) by:

- **providing £150 million of funding to support the delivery of smart and integrated ticketing across local transport and rail services in the North.** TfN will produce a regional implementation plan, working in partnership with the DfT, by Budget 2016. This will support TfN's plans for a ticketing system that makes it simple and easy for people to travel across the North by bus, tram, metro and rail

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<sup>95</sup> Enterprise Zones boom with thousands of new jobs attracted this year, HM Government, August 2015.

- **extending the Summer Budget 2015 commitment to fund the operation of TfN, with a total of £50 million now committed over this Parliament.** This will further accelerate the pace of progress, as TfN develops plans to transform the North's transport connections and help forge a single regional economy
- **supporting the upcoming publication of TfN's interim report which will set out the rapid progress TfN has made in the last 6 months across all elements of their Northern Transport Strategy,** as well as the significant steps taken to develop TfN as an organisation. This includes the recent appointment of TfN's new Chief Executive, the upcoming appointment of a new Chair, and the introduction into Parliament this month of legislation to put TfN on a statutory footing by 2017
- **providing £7 million of funding through the Regional Air Connectivity Fund to support new air routes promoting domestic and international connectivity and stimulating jobs and growth. These will include new routes from Newcastle to Norwich; from Carlisle to Belfast, Dublin and Southend; and from Leeds Bradford to Newquay.**

1.255 To back science-based and innovative companies in the North the government is:

- **providing £250 million for small modular reactor development and wider nuclear R&D, creating opportunities for the North's centres of nuclear excellence in Sheffield City Region, Greater Manchester and Cumbria, as well as the nuclear research base across the UK.** This builds on £25 million of UK funding for a Joint Research and Innovation Centre with China, to be based in the North West. **This is on top of a total of more than £375 million over this Parliament for dedicated science and innovation facilities in the North**
- **the government has agreed with the British Business Bank and LEPs in the North West, Yorkshire and the Humber and Tees Valley to create a Northern Powerhouse Investment Fund of over £400 million to invest in smaller businesses,** subject to European funding arrangements. Together with a separate fund in the North East this will make over £500 million available across the Northern Powerhouse
- the government backs the development of shale gas, which strengthens UK energy security, while providing generous benefits for host communities. **It is therefore establishing a Shale Wealth Fund from up to 10% of shale tax revenues.** This is projected to invest up to £1 billion in the North and other shale producing areas over the next 25 years
- **doubling the size of the Enterprise Zones programme in the Northern Powerhouse, creating 7 new Zones,** meaning that over a third of all new Enterprise Zones announced in this Spending Review will be in the North, while extending a further 2 Enterprise Zones.
- **announcing the appointment of Julia King, Professor the Baroness Brown of Cambridge, as Chair of the £235 million Sir Henry Royce Institute,** which will build on the North's strengths in advanced materials research and innovation
- **providing £50 million for 2 new agricultural technology centres, headquartered in York,** which will support innovation and skills in the food and farming supply chain, enabling the UK to grow its share of the £250 billion global agri-tech market
- **providing an initial investment of £4 million to establish an Anti-Microbial Resistance Centre of Excellence in R&D at Alderley Park,** subject to a business case

**1.256** The government's recent delegation to China showcased the Northern Powerhouse to key international investors. **To build on this success, and ensure that the strengths of the Northern Powerhouse are internationally recognised, the government will provide £15 million of funding to support further Northern Powerhouse trade missions including to key emerging economies. A further £7 million will fund a Northern Powerhouse Investment Taskforce**, bringing the authorities and businesses of the North together to present a single internationally competitive offer to the world.

**1.257** To further invest in the North's strong creative and cultural life, the government will:

- **provide £5 million to expand the Great Exhibition of the North**, which will celebrate the great art, design and culture of the North. **The government will invest in a new £15 million Great Exhibition Legacy Fund to pave the way for future cultural investment in the Northern Powerhouse. The government is also pleased to announce the appointment of Sir Gary Verity** to take this project forward
- **provide £5 million to support Manchester Museum to create a new South Asia Gallery, in partnership with the British Museum**
- **provide £1 million to create a lasting legacy for Hull's UK City of Culture 2017 and prepare for the next UK City of Culture**
- **build on the enormous success of the Rugby Union World Cup, and boost sport across England, by supporting the ambition to host the 2021 Rugby League World Cup in the Northern Powerhouse**

**1.258** The government has agreed that in 2017, there will be at least 5 new Northern Mayors, covering 54% of the population of the North, backed by over £4 billion of new funding from central government.

**1.259** The government will continue investing in world class public services across the Northern Powerhouse, and is projected to invest over £150 billion in health spending in the Northern Powerhouse across the Spending Review period, and around £46 billion in schools spending.<sup>96</sup>

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<sup>96</sup> Estimated regional allocations of education spending based on current patterns of spend, subject to change through new funding formulae.

## Figure 2: Building the Northern Powerhouse by 2020

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### 2015-16 and 2016-17 **Key project starts:**

- The first of almost £3 billion of Growth Deal projects get underway
- Launch of Health North
- Construction work on UK Collaboratorium for Research In Infrastructure and Cities hubs
- Investment package for Small Modular Reactor development and nuclear R&D launched
- Accelerating £220 million upgrade to M6 Junctions 16-19

### **Key project completions:**

- Electrification of railway between Manchester and Liverpool
- Appointment of Transport for the North's Chair
- Interim report from Transport for the North
- Contract award for the New Northern and Transpennine Rail franchises

### 2016-17 and 2017-18 **Key project starts:**

- Construction work on Sir Henry Royce Institute in Manchester
- Energy Subsurface Test Centre, Chester
- Construction of National Centre for Ageing Science, Newcastle
- Great Exhibition Legacy Fund

### **Key project completions:**

- First mayoral elections for northern cities
- Graphene Engineering and Innovation Centre, Manchester
- Cognitive Computing Research Centre, Cheshire
- Mersey Gateway Bridge opens
- New East Coast InterCity Express trains come into service
- National College of High Speed Rail, Doncaster
- Investments under the Builders Finance Fund for new homes
- 'The Factory, Manchester' – a new theatre and exhibition space

### 2019-20

### **Key project starts:**

- Major roads investment projects underway across the North, such as the A1 north of Ellingham and A1 Morpeth to Ellingham

### **Key project completions:**

- Northern Hub rail enhancements scheme
  - £350 million Metrolink extension to Trafford Park in Greater Manchester
  - Development in extending the capabilities of the National Nuclear Users Facility
  - Improved East Coast rail timetable with additional and faster services
  - Hartree Cognitive Computing Research Centre, Cheshire
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## The Midlands

**1.260** The government is building on the success of Britain's Engine for Growth in the Midlands. Over 250,000 more people were in work in the Midlands by the end of the last Parliament compared to 2010.<sup>97</sup> The recent historic West Midlands Devolution Agreement means:

- a new, directly elected Mayor for the West Midlands
- devolution of powers over adult skills, employment and transport
- a new additional £36.5 million a year funding allocation over 30 years, to be invested to drive growth
- supporting the Curzon Street Enterprise Zone extension in order to help deliver the ambition of the HS2 Growth Strategy
- funding the Eastside Metro extension to Digbeth, subject to a business case

**1.261** The government invests further in the Midlands through the Spending Review:

- building on the government's £5 million commitment to Midlands Connect at the Summer Budget, **the government will now work with the Midlands to develop a long-term transport strategy for the region through the creation of a new Midlands Connect Strategic Board**, whose members will include the Department for Transport (DfT), Highways England, Network Rail, HS2 Ltd and local authorities and Local Enterprise Partnerships from across the Midlands
- **launching the competition for the new West Midlands rail franchise**, which will incentivise bidders to deliver better services and enhanced capacity, along with better stations and access, both in the West Midlands and on commuter routes into London. The next franchisee will also be required to work with West Midlands Rail to prepare for the journey towards full devolution of rail services to the West Midlands. West Midlands Rail and DfT will jointly launch a public consultation in December
- **providing £1.25 million to D2N2 (a business-led Local Enterprise Partnership covering Derby, Derbyshire, Nottingham and Nottinghamshire) to develop a growth strategy for the proposed High Speed 2 station at Toton**. This will enable them to start work on long term plans for regeneration and development, bringing in investment and businesses
- confirming that Highways England's planned investment to Junctions 16 to 19 of the M1 has started construction ahead of schedule, and is due to complete in 2017. Work has also started ahead of schedule on the M5 Junctions 4a to 6
- **providing support to secure launch funding to create a new university in Hereford focused on engineering** in 2016 (subject to relevant approvals). The government is also investing £60 million in the proposal by six universities across the Midlands for a new Energy Research Accelerator, a major project to develop the energy technologies of the future
- **committing £18 million to the Excellence in Precision Agriculture Innovation Centre**, which will be partly headquartered in Shropshire. This will be 1 of 4 agri-tech centres, which will develop new engineering technologies to increase the productivity and sustainability of UK agriculture

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<sup>97</sup> 'Regional Labour Market Statistics', ONS, November 2015.

- building on their ongoing collaboration, all 11 LEPs in the Midlands are working with government to maximise the impact of the new round of European financing for smaller businesses across the Midlands
- **providing £5 million for a Midlands Engine Trade and Investment Plan**, to market the world-leading strengths of the Midlands overseas, including through an integrated events and trade missions programme, new specialist advisers and new resource to support inward investment
- **investing £2.5 million of capital funding to support Birmingham Dance Hub to create a new dance performance space and £1.5 million of resource funding for the Birmingham Festival Programme of dance** to create a new dance training and education programme
- **the government will create a new Enterprise Zone in Stoke/Staffordshire Ceramics Valley and the extend the existing Enterprise Zone at Infinity Park Derby**

## The South West

**1.262** The government is investing £7.2 billion in transport infrastructure in the South West over this Parliament, including a £2 billion investment to upgrade the A303. **In addition, projects such as the North Devon Link Road and the A391 in Cornwall will be able to bid for funding from the new £475 million Local Majors Fund.**

**1.263 To better link up the South West, the government is funding new air routes from Newquay to Leeds Bradford and from Exeter to Norwich.** The Spending Review and Autumn Statement invests £20 million in the New Stations Fund, which will look at bids including the proposal for a new station along the line from Castle Cary to Taunton. Network Rail's programme of investment will electrify the Great Western Mainline, deliver the Western Flood Resilience work, and fund the re-signalling programme for Cornwall.

**1.264 The government is launching the competition on the new South Western rail franchise** which will incentivise bidders to increase capacity and significantly improve passenger satisfaction and performance standards, as well as providing more smart-ticketing and free Wi-Fi across all trains. Earlier this year, the government also confirmed a £360 million order for a fleet of new trains on the Great Western franchise, which will provide more seating and better journeys into Devon and Cornwall. The trains will be delivered from 2018. **DfT will also work with the Peninsula Rail Task Force and other local stakeholders in the South West to publish a report next year** with options for creating a dedicated new franchise for Devon and Cornwall.

**1.265** The South West is at the heart of the government's cyber security strategy, and 1 of 2 Cyber Innovation Centres will be based in Cheltenham. The Strategic Defence and Security Review includes doubling funding for cyber capabilities to £1.9 billion over the Parliament, which will see the South West leading the world in cyber security. **The Spending Review and Autumn Statement announces that a new National College for Nuclear will be based in Somerset**, subject to due diligence. The government is also investing £10 million in better broadband infrastructure for the South West.

**1.266 The government will spend over £150 million to keep South West Water household customers' bills £50 lower for the rest of this Parliament**, in recognition of the higher water costs faced by consumers in the South West. This will help 750,000 households.

**1.267 The government is also confirming £5 million of funding for Colston Hall, and providing £500,000 to support plans to celebrate the 400th anniversary of the Mayflower in Plymouth in 2020.**

**1.268 The government will create new Enterprise Zones in the Heart of the South West, Dorset Green and will extend existing Enterprise Zones in Bristol (Bristol Temple Quarter and Somer Valley) and Cornwall/Isles of Scilly (Aerohub+).**

### South East

**1.269** In the last Parliament, employment in the South East grew by 240,000,<sup>98</sup> while the number of businesses grew by 144,900.<sup>99</sup> The government is building on this progress, by:

- **providing up to £250 million for a major new permanent lorry park** to increase resilience in Kent, by taking pressure off the roads in the event of Operation Stack. The government will consult on a preferred site at Stanford and other alternatives shortly
- **investing £2 million, funded through LIBOR fines, in moving the Royal Marines Museum to the Historic Dockyard within Portsmouth Naval Base.** A further £600,000 will complete fundraising for transforming the city's D-Day museum ahead of the 75th anniversary of D-Day in 2019, when it will reopen as the 'International Museum of D-Day, Portsmouth'
- **providing £7 million through the Regional Air Connectivity Fund to support new air routes promoting domestic and international connectivity and stimulating jobs and growth, including from Southampton to Munich and Lyon and from Oxford to Edinburgh.**
- **creating 4 new Enterprise Zones in Newhaven, Aylesbury Vale, Didcot Growth Accelerator and Enterprise M3, and extending the North Kent Innovation Zone**

### East of England

**1.270** The Spending Review and Autumn Statement builds on strong growth over the last Parliament in the East of England, where employment grew by 229,000,<sup>100</sup> and the number of businesses increased by 58,700.<sup>101</sup> The 2015 Spending Review and Autumn Statement can confirm that:

- **the government will provide £475 million of investment for local major transport projects**, that local areas can bid for to help pay for projects that are too expensive to fund by themselves. This national fund could include providing funding for projects in the East of England like the Lowestoft Third Crossing and Ipswich Wet Dock Crossing
- **in addition to the £6.9 billion national science capital commitment, the government will invest £75 million to unlock a £300 million investment to transform the University of Cambridge's Cavendish Laboratories**, to the benefit of research across the UK, subject to approvals.
- **the £106 million Norwich Northern Distributor Road has been approved** and will enter construction by the end of the year
- **the government will provide £7 million through the Regional Air Connectivity Fund to support new air routes** promoting domestic and international connectivity and stimulating jobs and growth, including from Norwich to Exeter and Newcastle, and from Southend to Carlisle.
- **a new National College for Creative and Cultural Industries will be based in Essex** (subject to due diligence)

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<sup>98</sup> 'Regional Labour Market Statistics', ONS, November 2015.

<sup>99</sup> 'Business Population Estimate for the UK and Regions', BIS, October 2015.

<sup>100</sup> 'Regional Labour Market Statistics', ONS, November 2015.

<sup>101</sup> 'Business Population Estimate for the UK and Regions', BIS, October 2015.

- **4 new Enterprise Zones will be created in Cambridgeshire, Hertfordshire, Luton and across Great Anglia (Norfolk and Suffolk) while the existing Great Yarmouth & Lowestoft Enterprise Zone will be extended**

## London

**1.271** London added over £338 billion to the UK economy in 2013, over a fifth of the total UK Gross Value Added.<sup>102</sup> The government is giving London the investment it needs to continue to thrive as one of the world's greatest capital cities. The government is providing £11 billion of support for transport infrastructure in London, helping deliver Crossrail, new trains on the London Underground, station upgrades, new buses, and a network of Cycle Superhighways.

**The Spending Review and Autumn Statement provides support for key regeneration schemes, including:**

- delivery of the new Olympicopolis cultural and university quarter in the Queen Elizabeth Olympic Park
- £97 million to fund a new Thameslink station at Brent Cross
- £55 million to extend the London Overground from Barking to Barking Riverside
- bringing together the publicly owned land around the Old Oak Common HS2 station into single control

**1.272 The Spending Review and Autumn Statement is prioritising housing in London through new funding programmes for starter homes, Help to Buy: Home Ownership and through a new London Help to Buy with a special 40% equity loan.**

**1.273 The government will also provide £150 million funding support to the British Museum, Science Museum, and Victoria and Albert Museum** to replace out-of-date museum storage, including at Blythe House, with new world-class facilities to preserve and protect over 2 million fragile and sensitive objects. Blythe House will be sold in due course.

**1.274 The Mayor of London and the boroughs will jointly commission employment support (outside the Jobcentre Plus regime), to assist the very long-term unemployed and those with health conditions and disabilities to (re)-enter work.** The government, the Mayor of London and the boroughs will commence detailed discussions on how they can jointly shape every element of the commissioning process: from strategy to service design, managing provider relationships and reviewing service provision.

**1.275** The Metropolitan Police will benefit from the government's commitment to protect overall police spending in real terms, and additional investment in police counter-terrorism capability.

## A modern and reformed state

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**1.276** A modern and reformed state is built on the understanding that higher spending does not automatically mean better services, and that by harnessing today's technological advances, government can modernise public services, saving money and improving citizens' interaction with the state.

**1.277** In the last Parliament, falling public sector costs, including 40% reductions to administrative budgets,<sup>103</sup> were accompanied by improved outcomes: crime fell by a quarter, satisfaction with local services rose and more students from disadvantaged backgrounds went

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<sup>102</sup> 'Regional Gross Value Added', ONS, December 2014.

<sup>103</sup> Spending Review 2010 and Public Expenditure Statistical Analyses 2015, measured from 2010-11 baseline.

to university.<sup>104</sup> Meanwhile, the government introduced major digital reforms to improve public services including Universal Credit, the abolition of car tax discs and replacing 1,700 government websites with a single site, GOV.UK.

**1.278** The Spending Review sets out the next steps in transforming public services while offering a better deal for taxpayers. This will be delivered through digitising services and stronger collaboration between different parts of the public sector. This will enable more efficient use of resources, including a reduction in administrative budgets of a further 18% by 2019-20. These savings will directly support the government's plan to eliminate the deficit.

## Reform of the criminal justice system

### Prisons

**1.279** Over the last Parliament the government delivered reforms which will save approximately £300 million a year from 2015-16 through the Prison Unit Cost Programme, which is ensuring public prisons remain as efficient as those in the private sector.<sup>105</sup> **Through the Spending Review the government has chosen to reform and modernise the prison estate, investing £1.3 billion in the next 5 years, to bear down further on costs and ensure that prison supports rehabilitation more effectively.**

**1.280** **The government will build 9 new prisons, 5 in this Parliament and 4 shortly after, that are cheaper to run and better tailored to reduce reoffending, while selling old, inadequate prisons located on prime real estate to free up land for over 3,000 homes.** This will reduce running costs in prisons by £80 million a year when the reforms are complete. **The government will also invest in new technology and prisoner education to support rehabilitation, and will fund new video conference centres in prisons to enable video links with courts.** This will reduce transport costs by allowing up to 90,000 cases a year to be heard in prison instead of court.

### Courts

**1.281** The government has already taken steps to deliver a more efficient and effective courts and tribunals system for all users, including action to create a fully integrated criminal justice system, based around a common digital platform from police stations to court rooms.

**1.282** In 2014-15 the government committed £380 million new investment over 5 years from 2015-16 to fundamentally transform the courts and tribunals system, ensuring it is fit for purpose and delivers swifter and more certain justice. **In this Spending Review the government is increasing total investment to more than £700 million to modernise and fully digitise the courts, moving from a paper-based to an online system.** This will eliminate the need for over half a million pre-trial hearings in the criminal courts, and will significantly reduce court hearing times and the time spent on basic administrative functions. The government will also deliver a more efficient configuration of the estate by selling some underused courts to release land for new homes, and refurbishing existing ones. Together these reforms are expected to deliver savings of approximately £200 million a year from 2019-20 onwards.

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<sup>104</sup> 'Crime in England and Wales, Year Ending June 2015', Crime Survey for England and Wales, Office for National Statistics, October 2015; 'Coming to terms with austerity', Ipsos Mori, October 2015; 'UK application rates by country, region, constituency, sex, age and background', UCAS, January 2015.

<sup>105</sup> National Offender Management Service Annual Reports and Accounts 2014-15, Ministry of Justice, June 2015.

## Digitising and safeguarding the UK borders

**1.283** Over the last Parliament the government took action to ensure the resources of the Borders and Immigration System were used to greater effect. Customer service and border security maintained high standards, removals and departures by illegal migrants held steady at over 38,000 a year,<sup>106</sup> and the proportion of UK and EEA passengers crossing the UK border within acceptable time limits never fell below 98%.<sup>107</sup> The government also implemented Exit Checks to improve the identification and removal of people who have overstayed their visas and are in the UK illegally.

**1.284** Implementing state of the art systems to manage immigration and secure the border, so that resources are focused on security, is a priority for the government. **The Spending Review invests over £130 million in border technology, to increase the availability of intelligence and data for frontline services to accurately target criminals, illegal migrants and illicit freight. The government will also invest more than £250 million to overhaul the passport and immigration system.** This investment will enable customers to apply and pay for their passport and visa applications entirely online, improving information, convenience and flexibility for legal travellers, while the government continues to protect spending on maritime security and defence against dangerous goods.

## Greater collaboration and integration in public services

**1.285** Greater integration and collaboration between public services is helping to drive out inefficiency across the public sector. The government has taken bold steps to integrate public services by empowering local areas. Building on progress since 2010, the government is continuing to reform services and encourage greater collaboration. The Spending Review announces that the government will:

- **expand support for Social Impact Bonds**, investing £105 million over the Parliament to help deal with issues including homelessness, poor mental health and youth unemployment
- **introduce a new statutory duty for the emergency services to collaborate by early 2017**, subject to parliamentary approval, on areas such as procurement, new stations and vehicle maintenance
- **bring forward legislation to enable PCCs to take on responsibility for fire and rescue services**, subject to a clear business case and local support, with local fire services providing the necessary information for PCCs to develop the business case

## Digitising and simplifying government

**1.286** **The Spending Review invests £1.8 billion in digital technology and transformation projects across the public sector over the next 4 years, cementing the government's position as a digital leader.** The Government Digital Service will continue to act as the digital, data and technology centre for government, supporting departments as they transform their business operations, setting best practice and ensuring quality of services.

**1.287** To support this role **the government will provide the Government Digital Service with £450 million.** The Government Digital Service will create common platforms, for example GOV.UK Pay, which will simplify hundreds of different payment systems making it easier for businesses and citizens to pay government. **By 2020 the government's ambition is for citizens to have the option to pay online for every central government service,**

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<sup>106</sup> Immigration statistics, Home Office, April to June 2015.

<sup>107</sup> Border Force management information, Home Office.

**including passports, driving licences and motoring fees.** The Common Technology Services programme will deliver flexible and modern technology for the entire Civil Service, opening up more government contracts to suppliers and saving money for taxpayers.

## A modern and fairer tax system

### Making Tax Digital

**1.288** At the March 2015 Budget the government committed to transform the tax system over the Parliament by introducing simple, secure and personalised digital tax accounts, removing the need for annual tax returns. This will give individuals and businesses a more convenient real-time view of their tax affairs, providing them with greater certainty about the tax they owe. As the next steps in delivering this ambition, the Spending Review and Autumn Statement announces that the government will:

- **invest £1.3 billion to transform Her Majesty's Revenue and Customs (HMRC) into one of the most digitally advanced tax administrations in the world, with access to digital tax accounts for all small businesses and individuals by 2016-17**
- **by 2020, require most businesses, self-employed people and landlords to keep track of their tax affairs digitally and update HMRC at least quarterly via their digital tax account.** HMRC will ensure the availability of free apps and software that link securely to HMRC systems and provide support to those who need help using digital technology. This will not apply to individuals in employment or pensioners, unless they have secondary incomes of more than £10,000 per year from self-employment or property. The government will consult on the details in 2016
- **consult on options to simplify the payment of taxes,** including whether to align payment dates and bring them closer to the point when profits arise, so that taxpayers make a single regular payment that covers all their tax affairs

**1.289** These reforms will deliver the biggest transformation of the tax system in a generation, making it more effective, efficient and easier for taxpayers, and are a first step by HMRC towards meeting a **new target to reduce the costs to business of tax administration by £400 million** by the end of 2019-20.

### Capital Gains Tax payment window

**1.290** Capital Gains Tax (CGT) due on residential property is currently paid between 10 and 22 months after a disposal is made. This is out of step with the position for other taxpayers, such as those paying income tax through the Pay As You Earn (PAYE) system. This delay can also cause problems where a taxpayer forgets to pay, or where they no longer have enough of the proceeds from the disposal to cover the tax charge. To address this **the Spending Review and Autumn Statement introduces a requirement for the capital gains tax due to be paid within 30 days of completion of any disposal of residential property. This requirement will be introduced from April 2019 to ensure that HMRC's digital systems are ready to provide support, making paying this tax simpler and quicker for taxpayers.**

## Reducing the cost of government

**1.291** The government saved billions for the taxpayer in the last Parliament by cutting back on wasteful expenditure across a range of areas and reforming the public sector workforce. The Spending Review builds on this progress and sets out plans to increase further the productivity and efficiency of public services.

### Public sector workforce reform

**1.292** During the last Parliament, the government tackled outdated workforce pay and pension arrangements. This included ending automatic progression pay across large parts of the public sector and introducing significant reforms for the schools, Civil Service, police and prison workforces. Together with pay restraint, these reforms saved approximately £12 billion in the last Parliament.<sup>108</sup>

**1.293** The government will continue to modernise the terms and conditions of public sector workers, by taking forward targeted reforms in areas where the public sector still has far more generous rights than the private sector. **As part of this, the government will consult on further cross-public sector action on exit payment terms, to reduce the costs of redundancy payouts and ensure greater consistency between workforces.** These payouts totalled around £2 billion a year over the last Parliament.<sup>109</sup>

**1.294 The government will also review sickness absence in public sector workforces before consulting on how to reduce its impact on public service delivery, and considering legislation where necessary.** Public sector sick pay has been estimated to cost around £4.5 billion a year and terms are more generous than typical private sector arrangements.<sup>110</sup> It is right that the government reviews how the current systems for managing and compensating for sickness are working and looks at what reforms might be needed to move to a more modern and productive state.

**1.295** As announced at Summer Budget, to help protect jobs and the quality of public services the Spending Review funds public sector workforces for an average pay award of 1% for 4 years from 2016-17. This will protect approximately 200,000 public sector jobs.<sup>111</sup>

## Selling government assets and creating space for homes

**1.296** The government is committed to releasing surplus assets to drive economic growth and release land for housing. Over the last Parliament the government saved £1.8 billion by vacating and selling property no longer needed.<sup>112</sup> But taxpayers continue to own an estimated £358 billion of land and property and the government's office estate remains large with almost 800 office buildings spread around the country.<sup>113</sup>

**1.297 Departments have agreed to release an additional £4.5 billion worth of surplus land and property assets which will contribute towards the government's target of £5 billion of receipts by 2020.** Table 1.A provides a breakdown of estimated receipts from sales of land and property by departments agreed for 2016-17 to 2020-21.

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<sup>108</sup> HMT analysis using Public Expenditure Statistical Analyses 2015 and Economic and Fiscal Outlook, OBR, November 2015.

<sup>109</sup> Drawing on Whole of Government Accounts exit payment cost data: 2011-12: £2.7bn; 2012-13; £2bn; 2013-14: £1.8bn.

<sup>110</sup> 'Health at work – an independent review of sickness absence' Dame Carol Black and David Frost CBE, Cm 8205, November 2011.

<sup>111</sup> Economic and Fiscal Outlook Briefing, OBR, July 2015.

<sup>112</sup> Government Property Unit (GPU) estimate.

<sup>113</sup> GPU calculations based on Whole of Government Accounts 2013-14; GPU ePIMS database.

Table 1.11: Sales of land and property assets agreed as part of Spending Review settlements

Estimated receipts between 2016-17 and 2020-21	(£ million)
Department of Health	-1,950
Ministry of Defence	-1,000
Ministry of Justice	-640
Department for Communities and Local Government	-410
Department for Energy and Climate Change	-200
Department for Business, Innovation and Skills	-120
Foreign and Commonwealth Office	-75
Other departments	-140
<b>TOTAL POLICY DECISIONS</b>	<b>-4,535</b>

Source: Departmental estimates

**1.298** The government has previously committed to releasing enough land, by 2020, to build 150,000 homes. The Spending Review and Autumn Statement announces that departments have now committed to sell land for more than 160,000 homes. In addition to the land released by central government departments, the Greater London Authority is in the process of disposing of land for a further 5,000 homes. Local authorities can also play a key role in selling land for housing, and the government will set the contribution local authority land disposals can make by the Budget.

Table 1.12: Sales of land for housing agreed as part of spending review settlements

Estimated housing capacity of land released by 2020	
Ministry of Defence	55,000
Department for Transport	38,000
Department for Communities and Local Government	36,000
Department of Health	26,000
Ministry of Justice	5,000
Department for Business, Innovation and Skills	1,000
<b>TOTAL</b>	<b>161,000</b>

Source: Departmental estimates

**1.299** In line with its commercial remit under the Crown Estate Act 1961, the Crown Estate also anticipates selling land over the Parliament that could deliver a further 2,500 homes.

**1.300** By 2020 the government's footprint will be significantly consolidated, transforming how government services work together. **The DWP will reduce its estate footprint by 20%, including seeking greater co-operation with local authorities, to improve benefit delivery and reduce costs. HMRC will also significantly consolidate its footprint, moving from 170 offices to 13 large, modern regional centres over the next 5 years.**

**1.301** To help deliver this, the government is transforming its approach to land and property asset management, centralising ownership of the estate and charging departments market-level rents for freehold assets they currently own. The new model will be operational by March 2017, subject to legislative requirements, and **all relevant central government land and property will transfer to the new central body by the end of this Parliament. The Spending Review announces that Liz Peace has been appointed as shadow chair to lead the implementation of the new body. The first assets transferred into the body will include freehold office, warehouse, storage and depot properties (and leaseholds where appropriate).** Similar charging regimes will be introduced to the same timescale for the MOD and the FCO overseas estate.

## Corporate and financial assets

**1.302** The government is seeking up to a further £5 billion of corporate and financial asset sales by March 2020, building on successes in the last Parliament. **Through the Spending Review up to £4.6 billion of assets have been identified.** Subject to a value for money assessment, the government will:

- **allow Network Rail to sell assets and re-invest proceeds in rail infrastructure**
- **press ahead with the privatisation of the Green Investment Bank with a sale expected to be concluded during 2016-17**
- **explore the sale of the government's 49% shareholding in NATS (air traffic services)**
- **consult on options to move operations of the Land Registry to the private sector from 2017**
- **develop options to bring private capital into the Ordnance Survey before 2020**
- **sell Department of Health (DH) corporate and financial assets: Community Health Partnerships subordinated debt and Credit Guarantee Finance lending to Private Finance Initiative projects**

**1.303** In addition, the government is continuing to pursue the sale of the pre-2012 income contingent repayment student loan book, with a first sale expected to commence in 2016-17.

## Public Sector Efficiency Challenge

In August the government wrote to millions of public sector workers asking for their ideas on how to do more for less. The government received over 22,000 suggestions and is taking forward a number to significantly improve public services as well as reduce costs. They include:

- supporting schools to save money on common items such as stationary or furniture, including exploring the option of a price-comparison website to reduce the time and resources schools have to invest in securing cost-effective deals
- increasing digital communications from Companies House as part of the ambition to be 100% digital, including developing a voluntary system for companies to opt into, to receive statutory and non-statutory notices by digital channels, which will improve the customer experience for businesses and will save £1 million a year by 2019-20
- introducing a live web-chat offer to answer queries about benefit claims, rather than doing this over the telephone, as part of the Universal Credit Digital Service
- abolishing paper payslips in Whitehall, saving at least £500,000 a year in unnecessary printing costs; most departments are already issuing electronic payslips, but paper payslips will be phased out completely over the Spending Review period, with the exception of a minority of cases where individuals still have a good reason to access them
- encouraging car-sharing in defence, by working on a system to help military and civilian personnel share journeys from the same areas, working towards its commitment to reduce transport usage by 10%, and benefitting the environment whilst at the same time saving money
- as part of the move towards a paperless NHS, expanding the number of patients booking their GP appointments online (with 20% of patients using online GP services by 2018) and moving to fully electronic referrals
- opening up government data – the Defra will open up 8,000 datasets over the next year as a starting point, enabling citizens and businesses to make better use of data to protect the environment and drive innovation in food and farming

## Stronger financial management across government

**1.304** In the last Parliament the government introduced tight controls over non-essential spending, including advertising and marketing, consultancy and IT. In this Parliament the government will go further by:

- moving to a centrally-managed budget for communications campaign spending from 2016-17; funding will only be released following a rigorous bidding process, to concentrate resources on only essential expenditure and through that drive significant savings for government
- taking further steps to reduce agency and contractor expenditure by at least 20% by 2019-20 which are estimated to save over £1 billion<sup>114</sup>
- implementing measures to reduce travel costs across Whitehall by a further £50 million by 2019-20

<sup>114</sup> Departmental agency staff and contractor spend of £5 billion in 2014-15. HM Treasury analysis based on 'Public Spending Statistics release: November 2015' and 'OSCAR annual release: November 2015'.

**1.305** The government will maintain a strict focus on ensuring every pound spent is value for money. Investment will be prioritised on evidence-based policy, following the lead of the independent What Works Centres, which are helping to put evidence at the heart of policy making to spend public funds more effectively.

**1.306** To improve delivery of government priorities, 11 new Implementation Taskforces have been created focusing on areas including housing, immigration and childcare. Led by ministers, these Taskforces will improve co-operation between departments on policy delivery.

**In December 2015 all departments will publish Single Departmental Plans which will set out in one place their priorities and how they will deliver these with the resources they have been allocated.** The plans will help clarify accountabilities and ensure government is using resources where they are most needed.

**1.307** The government will continue to drive up the quality of financial management and the capability of the government finance function to deliver its fiscal plan. This will be underpinned by:

- **launching a new Finance Academy to provide a learning and development offer for those working in government finance**
- **sharing finance expertise between departments through new Centres of Excellence**
- **establishing a new Costing Unit to build a more forensic understanding of the cost of public services and drive productivity across the public sector**

## Reducing the cost of politics

**1.308** The government has taken a series of steps to reduce the cost of politics, including cutting and freezing ministerial pay, abolishing pensions for councillors in England and legislating to reduce the size of the House of Commons. However, since 2010, there has been no contribution by political parties to tackling the deficit. Indeed, taxpayer-funded Short Money has risen year-on-year from £6.9 million in 2010-11 to £9.3 million in 2015-16.<sup>115</sup>

**1.309** Therefore, subject to confirmation by Parliament, the government proposes to **reduce Short Money allocations by 19%, in line with the average savings made from unprotected Whitehall departments over this Spending Review.** Allocations will then be frozen in cash terms for the rest of the Parliament, removing the automatic RPI indexation. Policy Development Grant allocations will also be reduced by a similar proportion, ensuring that political parties in receipt of taxpayer-funding contribute to the savings being asked of local and central government.

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<sup>115</sup> 'Short Money' House of Commons Briefing Paper Number 01663, November 2015.

# 2

## Departmental settlements

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Table 2.1: Departmental Programme and Administration Budgets (Resource DEL excluding depreciation)<sup>1</sup>

	£ billion						Per cent
	Baseline <sup>2</sup> 2015-16	2016-17	2017-18	Plans 2018-19	2019-20	2020-21 <sup>3</sup>	Cumulative real growth
<b>Resource DEL excluding depreciation</b>							
Defence	27.2	27.8	28.5	29.2	30.0	31.0	+2.3
Single Intelligence Account	1.8	1.8	2.0	2.1	2.2	2.3	+17
Home Office	10.3	10.7	10.6	10.6	10.6	*	-4.8
Foreign and Commonwealth Office	1.0	1.0	1.0	1.0	1.0	*	+0.0
International Development	8.5	9.1	9.3	10.7	11.0	*	+21
Health (inc. NHS)	111.6	115.6	118.7	121.3	124.1	128.2	+3.3
Work and Pensions <sup>4</sup>	5.8	6.1	6.3	5.9	5.4	*	-14
Education	53.6	54.4	55.5	56.4	57.1	*	-1.1
Business, Innovation and Skills	12.9	13.4	12.3	11.7	11.5	*	-17
Transport	2.6	2.0	2.1	2.2	1.8	*	-37
Energy and Climate Change	0.9	0.9	1.0	1.0	0.9	*	-16
Culture, Media and Sport	1.1	1.2	1.2	1.2	1.1	*	-5.1
DCLG Communities	1.5	1.4	1.4	1.3	1.2	*	-29
Scotland <sup>5</sup>	25.9	26.1	26.3	26.3	26.5	*	-5.0
Wales <sup>5</sup>	12.9	13.0	13.1	13.2	13.3	*	-4.5
Northern Ireland <sup>5</sup>	9.7	9.8	9.9	9.9	9.9	*	-5.0
Justice	6.2	6.5	6.3	5.8	5.6	*	-15
Law Officers' Departments	0.5	0.5	0.5	0.5	0.5	*	-2.1
Environment, Food and Rural Affairs	1.5	1.7	1.6	1.5	1.4	*	-15
HM Revenue and Customs	3.3	3.5	3.4	3.1	2.9	*	-18
HM Treasury	0.2	0.2	0.2	0.1	0.1	*	-24
Cabinet Office	0.2	0.3	0.3	0.3	0.2	*	+4.4
National Citizen Service <sup>6</sup>	0.1	0.2	0.2	0.3	0.4	*	-
Small and Independent Bodies <sup>7</sup>	1.5	1.5	1.5	1.5	1.5	*	-6.6
Reserves	3.5	3.5	3.4	3.5	4.1	*	-
Adjustment for non-baselined funding	0.4	-	-	-	-	*	-
<b>Resource DEL plans (central government)<sup>8</sup></b>	<b>304.6</b>	<b>312.2</b>	<b>316.5</b>	<b>320.5</b>	<b>324.4</b>	<b>*</b>	<b>-</b>
<b>Local government spending<sup>9</sup></b>	<b>40.3</b>	<b>38.6</b>	<b>38.9</b>	<b>39.7</b>	<b>40.5</b>	<b>*</b>	<b>-6.7</b>
of which DCLG Local Government DEL	11.5	9.6	7.4	6.1	5.4	*	-56
of which locally financed expenditure <sup>10</sup>	28.8	29.0	31.5	33.6	35.1	*	+13
<b>Total Resource DEL excluding depreciation plans</b>	<b>316.1</b>	<b>321.8</b>	<b>323.9</b>	<b>326.7</b>	<b>329.8</b>	<b>342.7</b>	<b>-</b>
OBR allowance for shortfall	-1.0	-1.0	-1.0	-1.5	-1.5	-1.5	
<b>Resource DEL excluding depreciation forecast</b>	<b>315.1</b>	<b>320.8</b>	<b>322.9</b>	<b>325.2</b>	<b>328.3</b>	<b>341.2</b>	<b>-</b>

<sup>1</sup> Resource DEL excluding depreciation is the Treasury's primary control total within resource budgets and the basis on which Spending Review settlements were made.

<sup>2</sup> As at all Spending Reviews, baselines exclude one-off and time-limited expenditure. Cumulative real growth is calculated to 2019-20 from the 2015-16 baseline.

<sup>3</sup> 2020-21 departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

<sup>4</sup> DWP and HMRC's settlements reflect the transition of Tax Credits into Universal Credit from HMRC to DWP. The underlying reduction excluding the effect of this transition would be -16% for DWP and -15% for HMRC.

<sup>5</sup> The Government agreed that as part of the £3bn savings in 2015-16, as announced on 4 June 2015, the devolved administrations could defer their cuts to 2016-17. We assume here that all the devolved administrations take their reductions in 2016-17. These settlements are subject to change as the devolved administrations finalise their spending plans.

<sup>6</sup> National Citizen Service is part of Cabinet Office DEL.

<sup>7</sup> A detailed breakdown of small and independent bodies is set out in Table 2.25.

<sup>8</sup> Excludes the central government grants to local authorities through DCLG Local Government DEL, but not grants to local authorities from other government departments.

<sup>9</sup> Local government spending is the sum of DCLG Local Government DEL and locally financed expenditure in England (based on the OBR's forecast of Local Authority Self-financed Expenditure) which includes forecasted growth in council tax and business rates. This does not include the impact of 100% business rate retention which the government will consult on shortly.

<sup>10</sup> Treasury/DCLG analysis based on OBR's forecast of local authority current expenditure in England (November 2015). This includes OBR assumptions that local authorities add £1.1/£0.8/£0.4/£0bn of income to reserves over the SR period.

Table 2.2: Departmental Capital Budgets (Capital DEL)

	£ billion					
	Baseline <sup>1</sup> 2015-16	2016-17	2017-18	Plans 2018-19	2019-20	2020-21
<b>Capital DEL</b>						
Defence	7.1	7.3	7.5	7.8	8.1	8.7
Single Intelligence Account	0.4	0.4	0.4	0.4	0.5	0.5
Home Office	0.4	0.5	0.5	0.4	0.4	0.4
Foreign and Commonwealth Office	0.1	0.1	0.1	0.1	0.1	0.1
International Development	2.6	2.7	3.2	2.8	3.1	3.6
Health (inc. NHS)	4.8	4.8	4.8	4.8	4.8	4.8
Work and Pensions	0.2	0.3	0.4	0.3	0.2	0.2
Education	4.6	5.2	4.6	4.4	4.4	4.6
Business, Innovation and Skills	3.8	3.1	2.2	1.7	1.7	1.6
<i>Of which financial transactions in CDEL</i>	<i>1.6</i>	<i>1.0</i>	<i>0.4</i>	<i>0.0</i>	<i>-0.1</i>	<i>-0.2</i>
Transport	6.1	6.3	7.6	8.9	11.4	12.4
Energy and Climate Change	2.3	2.4	2.5	2.4	2.3	2.8
Culture, Media and Sport	0.4	0.4	0.4	0.4	0.3	0.2
DCLG Communities	3.1	4.0	3.7	4.0	3.6	4.3
Scotland	3.0	3.2	3.2	3.2	3.4	3.5
Wales	1.5	1.5	1.5	1.6	1.6	1.7
Northern Ireland	1.1	1.1	1.1	1.2	1.2	1.2
Justice	0.4	0.7	0.7	0.7	0.4	0.1
Law Officers' Departments	0.0	0.0	0.0	0.0	0.0	0.0
Environment, Food and Rural Affairs	0.5	0.6	0.6	0.6	0.5	0.5
HM Revenue and Customs	0.1	0.2	0.2	0.2	0.2	0.2
HM Treasury	0.0	0.1	0.1	0.1	0.1	0.0
Cabinet Office	0.0	0.0	0.0	0.0	0.0	0.0
Small and Independent Bodies	0.1	0.1	0.1	0.1	0.1	0.1
Reserves	1.0	1.1	1.3	1.3	1.2	1.1
Capital spending not yet in budgets <sup>2</sup>	–	–	–	–	–	3.0
Adjustment for non-baselined funding	0.3	–	–	–	–	–
<b>Total Capital DEL plans</b>	<b>43.7</b>	<b>46.0</b>	<b>47.0</b>	<b>47.5</b>	<b>49.8</b>	<b>55.7</b>
<i>Remove CDEL not in PSGI<sup>3</sup></i>	<i>-5.9</i>	<i>-5.0</i>	<i>-4.9</i>	<i>-3.4</i>	<i>-3.3</i>	<i>-2.9</i>
<i>Allowance for Shortfall</i>	<i>-2.0</i>	<i>-2.0</i>	<i>-2.0</i>	<i>-2.5</i>	<i>-2.5</i>	<i>–</i>
<b>Public Sector Gross Investment in CDEL</b>	<b>35.8</b>	<b>39.0</b>	<b>40.1</b>	<b>41.6</b>	<b>44.0</b>	<b>52.8</b>

<sup>1</sup> As at all Spending Reviews baselines exclude one-off and time-limited expenditure.

<sup>2</sup> The uplift in Capital DEL in 2020-21 represents funding yet to be allocated to departments, and is presented net of the OBR's allowance for shortfall in that year.

<sup>3</sup> Capital DEL that does not form part of public sector gross investment, including financial transactions in Capital DEL.

# The Ministry of Defence

Table 2.3: Ministry of Defence

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Resource DEL <sup>1</sup>	27.2	27.8	28.5	29.2	30.0	31.0
Capital DEL	7.1	7.3	7.5	7.8	8.1	8.7
<b>Total DEL</b>	<b>34.3</b>	<b>35.0</b>	<b>36.0</b>	<b>37.0</b>	<b>38.1</b>	<b>39.6</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

## 2.1 The Ministry of Defence (MOD) settlement includes:

- increasing the MOD's budget by 3.1% in real terms to 2019-20 as part of the government's commitment to spend 2% of GDP on defence
- an investment of £1.2 billion over 10 years to ensure a Queen Elizabeth Class carrier is able to deploy with 24 jets on board from 2023, as well as investing almost £2 billion in UK Special Forces
- £2.1 billion from the Joint Security Fund to fund and deliver the MOD's SDRS commitments in full, maintaining the current levels of the Armed Forces and building 4 new submarines to renew the nuclear deterrent
- savings of £9.2 billion, including £2 billion from pay restraint, £2.1 billion from improved commercial terms in the Equipment Plan, and reprioritisation of £2 billion of existing funding, all of which will be reinvested to fund the SDRS commitments

## Security

**2.2** The MOD will make over 170 investments to sustain and enhance defence capabilities. The government will invest £11 billion in new capabilities, innovation and the defence estate, to ensure that the Armed Forces are able to continue to project power with greater global reach. This includes creating 2 new strike brigades of up to 5,000 personnel, fully equipped to deploy rapidly and sustain themselves in the field, additional squadrons of upgraded Typhoon aircraft, increased provision of Intelligence, Surveillance and Reconnaissance aircraft and further support to UK Special Forces to conduct global counter terrorism operations. As a result of new investments the 10 year Equipment Programme will rise from £166 billion to £178 billion.

## Long-term investment

**2.3** The defence estate will become more efficient and better suited to modern needs. Land will be released, creating space to build 55,000 homes including in areas of high demand. Investment in new and renewed equipment will continue to support UK industry. Renewing the nuclear deterrent secures 6,800 jobs at Faslane alone, meaning it will continue to be one of the largest single site employers in Scotland.

## Efficiency and reform

**2.4** The MOD will deliver £9.2 billion of savings while maintaining the current number of Armed Forces personnel. All of these savings will be directly reinvested into the defence budget to enable investment in new capability to protect the UK's national security. These savings will be made from military and civilian pay restraint, reductions to the civilian headcount, the ending of military commitment bonuses, reductions in travel expenditure and professional fees as well as further efficiencies within the Equipment Programme by ensuring that the MOD gets the best commercial terms when buying new equipment.

# Single Intelligence Account

Table 2.4: Single Intelligence Account

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Resource DEL <sup>1</sup>	1.8	1.8	2.0	2.1	2.2	2.3
Capital DEL	0.4	0.4	0.4	0.4	0.5	0.5
<b>Total DEL</b>	<b>2.1</b>	<b>2.2</b>	<b>2.3</b>	<b>2.5</b>	<b>2.7</b>	<b>2.8</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

## 2.5 The Single Intelligence Account (SIA) settlement includes:

- a real terms increase in funding for the security and intelligence agencies, including a £1.3 billion allocation from the Joint Security Fund
- a new operations centre for MI5
- funding the recruitment of 1,900 more intelligence officers to work on key national security objectives, including investigating, analysing and helping disrupt terrorist plots, an increase of 15%
- increased collaboration between the 3 agencies enabling the SIA to operate more efficiently, realising £1.3 billion over 5 years to be reinvested in national security priorities

2.6 The government will ensure the security and intelligence agencies have the capability to deliver national security priorities and protect UK citizens against the terrorist threat.

### Cyber

The government will invest £1.9 billion over 5 years in the UK’s cyber defences, almost double the investment over the previous 5 years. This will support:

- a new National Cyber Centre, reporting to the Director of GCHQ, to act as a single point of contact to simplify and strengthen government effort on cyber security and improve engagement with industry
- a programme of active defence, in partnership with some of the major companies who form the backbone of internet services in the UK to enable them to implement a series of measures to divert known malware and block malicious sites
- support for cyber businesses, including 2 new innovation centres in London and Cheltenham to support talent and drive growth in the cyber sector
- developing the skills base to support the UK’s future cyber security needs, including by running a £20 million competition to open a new Institute for Coding to train the next generation in the high level digital and computer science skills the UK needs
- developing and improving national offensive cyber capability

## Home Office

Table 2.5: Home Office

	£ billion					
	Baseline			Plans		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>2</sup>
Resource DEL <sup>1</sup>	10.3	10.7	10.6	10.6	10.6	*
Capital DEL	0.4	0.5	0.5	0.4	0.4	0.4
<b>Total DEL</b>	<b>10.7</b>	<b>11.2</b>	<b>11.1</b>	<b>11.0</b>	<b>11.0</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

### 2.7 The Home Office (HO) settlement includes:

- **overall police spending protected in real terms over the Spending Review period to enable the police to continue to adapt to emerging crime threats, and to train more firearms officers, while taking further steps to improve efficiency**
- **£500 million increased funding for the counter terrorism budget, to protect the UK from the ongoing threat posed by terrorism**
- **over £1.3 billion of capital investment by 2019-20, to deliver state-of-the-art security at the border, a streamlined core department, and an additional £1 billion to overhaul the emergency services network**
- **resource savings of 5% by 2019-20 through a fully self-funded borders and immigration system and total reductions of 30% in the department's administration budget compared to 2015-16**

### Security

**2.8** The government will protect overall police spending in real terms over the Spending Review period, an increase of £900 million in cash terms by 2019-20. This provides funding to maintain overall police force budgets at current cash levels. The government will allocate additional transformation funding to those forces which have strong proposals to support efficiency and reform and to help transition to new funding arrangements in future. This funding will also allow forces to train more firearms officers to ensure the country extends its capability to protect its citizens from terrorist threats.

**2.9** The government will also protect the National Crime Agency's budget as it leads UK law enforcement's fight to cut serious and organised crime. In addition, the government will provide new capital investment of over £200 million to transform the National Crime Agency into a world-leading law enforcement agency, with new digital and investigative capability to tackle cyber crime, child exploitation and the distribution of criminal finances.

**2.10** The government will also invest £500 million in counter terrorism funding to increase the capability of the police to pursue terrorists, counter poisonous ideologies at home, and ensure that the UK is properly prepared in the event of an attack. Additional capability includes a new National Digital Exploitation Service, upgraded borders intelligence systems, enhanced intelligence coverage in prisons, improved ability to share biometrics data with the UK's counter terrorism partners overseas, and increased aviation security both at UK and international airports.

**2.11** Over £460 million of the overseas aid budget will be used by 2019-20 to resettle up to 20,000 of the most vulnerable Syrian refugees, covering the full first year costs to ease the burden on local communities. The government will provide around a further £130 million by

2019-20 to local authorities to contribute to the costs of supporting refugees beyond their first year in the UK.

## Efficiency and reform

**2.12** The government will invest nearly £1 billion in new mobile digital technology through the Emergency Services Mobile Communications Programme. The enhanced network will enable officers to access key police databases, take mobile fingerprints and electronic witness statements and stream live body-worn video – all while on the move. The new network will cut costs for the taxpayer (saving £1 million per day when fully operational), free up police officers' capacity, and connect all emergency services on the same broadband network for the first time.

**2.13** The government will support police forces to adopt a more collaborative approach to purchasing common items on a regional or national level, such as police uniforms and vehicles, to secure a better deal through economies of scale forecast to save £350 million over the Parliament.

**2.14** Around £600 million of overall border, immigration and citizenship system costs are currently funded by the Exchequer (in addition to customs and asylum support costs). By investing in streamlined and automated processes, saving time for immigration officials and border officers, this funding requirement will be more than halved. For example, the government will invest over £250 million to enable passports and visas to be processed online. The remainder will be funded through targeted visa fee increases, which will remove the burden on the UK taxpayer while ensuring the UK remains a competitive place for work, travel and study internationally. At the same time, new investments such as £130 million more for automated passport E-gates, watch-list and intelligence technology, will tighten security while keeping queuing times to a minimum. Spending on maritime security will be protected, maintaining the UK's strong defences against dangerous goods.

**2.15** HO will continue to drive down overall administration costs, with a 30% reduction equating to over £100 million of departmental savings by 2019-20.

## Devolution

**2.16** The government will offer PCCs greater flexibility in their local funding decisions by rewarding areas which have historically kept council tax low, working with police leaders to ensure the police have the necessary powers to maximise workforce flexibility and capability.

## Foreign and Commonwealth Office

Table 2.6: Foreign and Commonwealth Office

	£ billion					
	Baseline			Plans		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>2</sup>
Resource DEL <sup>1</sup>	1.0	1.0	1.0	1.0	1.0	*
Capital DEL	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total DEL</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

### 2.17 The Foreign and Commonwealth Office (FCO) settlement includes:

- protecting the FCO's budget in real terms to maintain the UK's global network of diplomatic posts which promote the UK's interests around the world, host 26 different government departments and agencies within its buildings, and to provide coordination of the UK's presidency of the EU
- funding to open new embassies in Abuja and Budapest and further investment across the FCO estate to keep people safe while they are working for the UK abroad
- funding for the British Council will also be protected in real terms, and in addition, it will be able to bid competitively for up to £700 million from a cross-government fund to improve links with emerging economies, help tackle extremism globally and support good governance
- efficiency savings of £53 million by 2019-20 delivered through more effective administration of the department's travel budget and better management of the overseas network

### Security

**2.18** The FCO will spend up to £24 million over the next 4 years to increase the presence of its counter terrorism and extremism experts overseas.

**2.19** The Conflict, Stability and Security Fund (CSSF), through which the FCO funds much of its conflict prevention work, will grow by 19% in real terms by 2019-20. This will strengthen the UK's ability to support stabilisation in Syria, Ukraine, Somalia and Pakistan and increase the UK's response to serious transnational threats including extremism, serious and organised crime and uncontrolled migration.

### Long-term investment

**2.20** The government will invest £60 million a year to deliver the renewed GREAT campaign. This funding will ensure over 140 overseas posts will continue to promote the UK as a world-class destination for trade, investment, education and tourism.

**2.21** The FCO will maintain the global reach of the UK's diplomatic network, which consists of more than 250 posts and missions in over 150 countries and territories across the world. There will also be funding for improvements in Mandarin, Russian and Arabic language skills, building country and regional expertise, and investment to maximise the benefit of open source information.

### Efficiency and reform

**2.22** Over the Parliament the FCO will work with other government departments to find further savings in the way government works overseas, making reductions in the travel budget across the FCO and controlling staff costs both overseas and in the UK.

## Department for International Development

Table 2.7: Department for International Development

	£ billion					
	Baseline			Plans		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>2</sup>
Resource DEL <sup>1</sup>	8.5	9.1	9.3	10.7	11.0	*
Capital DEL	2.6	2.7	3.2	2.8	3.1	3.6
<b>Total DEL</b>	<b>11.1</b>	<b>11.8</b>	<b>12.6</b>	<b>13.6</b>	<b>14.2</b>	<b>*</b>
<i>of which cross-government ODA funding</i>	<i>1.2</i>	<i>1.6</i>	<i>2.2</i>	<i>2.7</i>	<i>3.1</i>	<i>*</i>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

### 2.23 The Department for International Development (DFID) settlement includes:

- **increasing ODA spend across government to meet the commitment to spend 0.7% of GNI as ODA, shaped by a new aid strategy that both supports poverty reduction and aligns aid spending with the UK's national interest**
- **allocating 50% of DFID's budget to fragile states and regions in every year of this Parliament, a major investment in global stability, including in regions of strategic importance to the UK, such as the Middle East, South Asia and Africa**
- **establishing a new £500 million ODA crisis reserve, enabling flexible, quick and effective cross-government responses to crises as they happen and a £1 billion new fund (working with the Department of Health) over the next 5 years for research and development of products for infectious diseases**
- **efficiency savings of over £400 million by 2019-20**

### Security

**2.24** Shaped by a new aid strategy, DFID will work to strengthen global peace and security. The government will increase aid spending to tackle the crisis in Syria and the related region. The government will also expand the cross-government CSSF from £1 billion in 2015-16 to over £1.3 billion by 2019-20. This will include increased resource and expertise to tackle the drivers of violent conflict which threaten stability and development.

### Long-term investment

**2.25** Emerging and developing economies are becoming increasingly important for global growth, and the government will give greater priority to promoting the economic reforms needed to support this. The Spending Review creates a new National Security Council led Prosperity Fund, worth £1.3 billion over the next 5 years.

**2.26** DFID will continue to invest in improving the lives of the world's poorest. This investment will include getting 11 million children into school, helping 60 million people get access to clean water and sanitation, saving 1.4 million children's lives through immunisations, and improving nutrition for at least 50 million people.

**2.27** DFID will continue to invest more in building countries' resilience to shocks and climate change through a 50% increase in government spending through the International Climate Fund.

## Efficiency and reform

**2.28** The government has set out a new approach to UK aid spending in its new aid strategy. Development spending will be reshaped according to the government's 4 strategic objectives of; strengthening global peace, security and governance; strengthening resilience and response to crises; promoting global prosperity; and tackling extreme poverty and helping the world's most vulnerable.

**2.29** DFID will continue to improve the impact of UK aid, including through cutting programmes that are poor value for money or have a weak fit with the government's strategic objectives and reprioritising spending. This includes continuing the move away from traditional general budget support (unearmarked contributions to recipient countries' budgets) to more targeted forms of financing.

**2.30** The government will aim for the first time for all UK government departments to be ranked as 'good' or 'very good' in the international Aid Transparency Index within the next 5 years.

**2.31** DFID will make efficiency savings of over £400 million by 2019-20 through transformation of its administrative functions including improved central contract management, digital platform and technology. These savings will be recycled to deliver DFID's aid commitments.

## Department of Health

Table 2.8: Department of Health

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Resource DEL <sup>1</sup>	111.6	115.6	118.7	121.3	124.1	128.2
Capital DEL	4.8	4.8	4.8	4.8	4.8	4.8
<b>Total DEL</b>	<b>116.4</b>	<b>120.4</b>	<b>123.5</b>	<b>126.1</b>	<b>128.9</b>	<b>133.1</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

Table 2.9: NHS

	£ billion						
	Outturn		Plans				
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
NHS TDEL <sup>1</sup>	98.1	101.3	106.8	110.2	112.7	115.8	119.9
Real terms growth rate		1.9%	3.6%	1.3%	0.4%	0.7%	1.4%
<b>Cumulative delivery of £10bn commitment<sup>2</sup></b>		<b>2</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>

<sup>1</sup> Included within Department of Health Total DEL

<sup>2</sup> The additional £10 billion real terms funding is calculated with reference to the Summer Budget 2015 deflators, consistent with when the commitment was made.

### 2.32 The Department of Health (DH) settlement includes:

- **£10 billion real terms increase in NHS funding in England between 2014-15 and 2020-21 of which £6 billion will be delivered by the end of 2016-17 and £4.8 billion capital funding every year for the next 5 years**
- **transforming the NHS into a 7 day service and investing in new clinical strategies for cancer and mental health, and enabling the provision of up to 10,000 additional nursing and health professional training places this Parliament**

- **integrating health and social care services by 2020, supported by a strong funding settlement for social care**
- **£22 billion of efficiencies to be made within the NHS by 2020-21, with savings reinvested into frontline health services, as set out in the NHS' own plan, the Five Year Forward View, and actions to tackle deficits and ensure good financial management across the NHS**

## Security

**2.33** Because the government is securing a strong economy, it is able to invest in a strong NHS. Over the next 5 years, the government will invest over half a trillion pounds in the NHS. This investment will mean that by 2020-21, the NHS will provide 800,000 more operations and treatments, 5.5 million more outpatients' appointments and over 100 million more free prescriptions.

## Long-term investment

**2.34** The £10 billion real terms increase in NHS funding by 2020-21 will deliver 7 day services in primary care and in hospitals. By 2021 everyone will be able to access GP services in the evenings and at weekends with an extra 5,000 doctors in general practice. This will be supported by £750 million of investment and a new national voluntary contract for GPs.

**2.35** In hospitals, patients will receive excellent care irrespective of the day they are admitted, in all key hospital services by 2020.

**2.36** The government will implement the recommendations of the Independent Cancer Taskforce so that by 2020 patients referred for testing by a GP should be diagnosed for cancer, or given the all clear, within 4 weeks. In addition, the government will be investing up to £300 million per year on diagnostics by 2020 to fund new equipment and additional staff capacity, including 200 additional staff trained to perform endoscopies by 2018.

**2.37** Investing an additional £600 million in mental health services will mean that significantly more people will have access to talking therapies every year by 2020. NHS England's Mental Health Taskforce will report in early 2016 and the government will work with them to set out transformative plans, including for perinatal mental health and coverage of crisis care.

**2.38** The UK will invest up to £150 million in a new Dementia Research Institute to draw together world leading expertise to accelerate the pace of research and tackle the progression of the disease. This is the government's latest step in a long term strategy to combat dementia which already includes over £300 million committed for UK research and a separate global fund to drive international innovation.

**2.39** The government will invest over £400 million over an 8 year period in a new 'Science Hub' which will provide world class Public Health England labs at Harlow, Essex and help protect the public from threats such as flu and Ebola. This will relocate existing facilities from Porton Down and Colindale into one integrated site.

**2.40** The government has allocated £4.8 billion capital funding for health every year for the next 5 years. This includes funding for a shift in the way urgent and emergency care services are provided and improving out of hospital services to deliver more care closer to home. New investment of £1 billion in technology will support this transformation and integrate patient records across health and social care by 2020. Over the next 5 years, at least £500 million will be invested in building new hospitals.

**2.41** The government will invest over £5 billion in health research and development over the next 5 years to fund key priorities such as the 100,000 genomes project, research into anti-microbial resistance and investment in the Ross Fund to tackle malaria.

## Efficiency and reform

**2.42** The NHS has committed to deliver its £22 billion in efficiency savings by 2020-21 to deal with rising demand. This will be achieved by reducing running costs, paying the right price for equipment, reducing avoidable hospital admissions, and improving care quality.

**2.43** The plan to deliver these efficiencies from across the health system is already underway. Lord Carter's review of acute NHS trusts found on average hospitals could save between 5% and 15% of their expenditure. The Carter Review is helping hospitals get the most out of their workforce by using smart rostering systems and improving staff management practices to ensure staff spend more time with patients and less on paperwork; ensuring improved stock-management of medicines in hospital pharmacies to reduce wastage (£1 billion); and achieving procurement savings (£1 billion) from bulk buying day to day items for the NHS.

**2.44** DH plans to sell nearly £2 billion of assets over the next 5 years, which will release land to build at least 26,000 new homes.

**2.45** DH itself will deliver savings from its central spending outside the NHS Mandate, which will free up resources for the front line NHS.

**2.46** As part of this, the government will reform the funding system for health students by replacing grants with student loans and abolishing the cap on the number of student places for nursing, midwifery and allied health subjects, enabling the provision of up to 10,000 additional nursing and health professional training places this Parliament. This will reduce the current reliance on expensive agency staff. The move to loans will also mean access to 25% more financial support for health students during their studies.

**2.47** This Spending Review finishes the job of reforming the public health system, delivering average annual real-terms savings of 3.9% over the next 5 years. Across the country, councils have already begun to develop new ways to deliver public health, showing that it is possible to deliver better health for local people and also better value for the taxpayer, but there is more to be done. Councils can seek to deliver efficiencies in this area, and can learn from best practice. So it is right that as the government eliminates the deficit, all funding is spent in the best way possible. Public Health England will continue to support local authorities in this process.

**2.48** The government will encourage long term partnerships between the NHS and the private sector to modernise buildings, equipment and services, and deliver efficiencies, especially where these partnerships support the upgrade of diagnostics capabilities and the development of new models of care, such as Accountable Care Organisations and hospital groups.

## Devolution

**2.49** The government will integrate health and social care services by 2020. Each part of the country will develop plans for this by 2017, to be implemented by 2020. Local areas will integrate in different ways using a range of models which the government supports.

## Department for Work and Pensions

Table 2.10: Department for Work and Pensions

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>2</sup>
Resource DEL <sup>1</sup>	5.8	6.1	6.3	5.9	5.4	*
Capital DEL	0.2	0.3	0.4	0.3	0.2	0.2
<b>Total DEL</b>	<b>6.0</b>	<b>6.4</b>	<b>6.6</b>	<b>6.2</b>	<b>5.7</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

### 2.50 The Department for Work and Pensions (DWP) settlement includes:

- continued roll out of Universal Credit, extending job search conditionality to a further 1.3 million claimants per year by 2020-21
- a real terms increase in funding to help those with disabilities and health conditions return to, and remain in, work
- a new Work and Health Programme replacing the Work Programme and Work Choice which will provide specialist support for the long-term unemployed and claimants with health conditions and disabilities
- investment to enable DWP to become a smaller, more efficient department spending 22% less on administration in real terms, 34% less in real terms on technology and occupying 20% less estate

### Security

**2.51** The government is committed to creating a fairer, more affordable welfare system that helps people gain the security of work and supports those in need. It will continue support for the long term unemployed and people with health conditions and disabilities including through the New Enterprise Allowance and a new Work and Health Programme. The government will also continue to deliver key reforms such as Universal Credit, Personal Independence Payment and Child Maintenance.

### Efficiency and reform

**2.52** The claimant count rate remains at 2.3% - the lowest level since the 1970s. As the numbers claiming benefits come down, spending on employment programmes can also be reduced. Total spending on employment will be reduced, including not renewing Mandatory Work Activity and Community Work Placements, but introducing a Work and Health Programme for the longer term unemployed and those with health conditions.

**2.53** DWP will be transformed into a smaller, more efficient department. DWP's estate will be reformed and reduced by 20% and the number of jobcentres co-located with local authorities will be expanded, benefiting claimants and those using government services while delivering a total reduction of 30% in estate costs. DWP will deliver cash savings of £319 million on technology while investing in information security.

### Devolution

**2.54** The Scotland Bill will, for the first time, transfer significant welfare powers to Scotland, including the ability to top-up reserved benefits and create new benefits in devolved areas of responsibility. This fully delivers the Smith Commission agreement.

**2.55** In addition, from 2017, local areas including London, Greater Manchester, Sheffield City Region, the North East, Tees Valley, Liverpool City Region and the West Midlands will work with DWP to co-design employment support for harder-to-help claimants.

## Department for Education

Table 2.11: Department for Education

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>2</sup>
Resource DEL <sup>1</sup>	53.6	54.4	55.5	56.4	57.1	*
Capital DEL	4.6	5.2	4.6	4.4	4.4	4.6
<b>Total DEL</b>	<b>58.2</b>	<b>59.6</b>	<b>60.1</b>	<b>60.8</b>	<b>61.6</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

### 2.56 The Department for Education (DfE) settlement includes:

- **doubling free childcare from 15 hours to 30 hours a week for working families of 3 and 4 year-olds, worth up to £5,000 per child per year from September 2017, and investing over £1 billion more a year by 2019-20 on free childcare places for 2, 3 and 4 year-olds**
- **protecting the schools budget in real terms, enabling a per pupil protection for the Dedicated Schools Grant and the pupil premium**
- **making around £600 million savings from the Education Services Grant (ESG) and supporting schools to realise efficiencies**
- **£23 billion capital investment over the Parliament to open 500 free schools, provide over 600,000 additional school places, rebuild and refurbish over 500 schools and address essential maintenance needs**

### Security

**2.57** Investing in education and skills will help deliver economic security. In addition to providing 600,000 additional school places, funding for universal infant free school meals will be maintained, supporting healthy eating and saving families around £400 for every infant each year.

### Long-term investment

**2.58** The government will invest over £1 billion more a year by 2019-20 in free childcare places for 2, 3 and 4 year-olds. To enable the doubling of free childcare for 3 and 4 year-olds with working parents, the government will invest at least £50 million of capital funding to create additional places in nurseries and over £300 million a year to increase the average hourly rate paid to childcare providers. From 2019-20 the government will spend a record £6 billion a year supporting parents with their childcare costs – this includes Tax-Free Childcare and Universal Credit.

**2.59** The government will support 800 more National Leaders of Education to continue driving up performance in schools, while increasing funding for teacher training and recruitment to deliver the English Baccalaureate and more specialist STEM teaching.

**2.60** The current national base rate per student for 16-19 year-olds in England will be protected in cash terms over the Parliament and the government will deliver 3 million high

quality apprenticeship starts by 2020. Some targeted savings will be made from 16-19 funding, including from declining demographics and funding outside the national base rate per student.

## Efficiency and reform

**2.61** To focus support where it is most needed and improve work incentives, the government will apply an upper income limit per parent of £100,000, and a minimum weekly income level per parent equivalent to 16 hours (worked at the National Living Wage) to the additional 15 hours of free childcare offered to 3 and 4 year-olds in working families from September 2017, and make the same changes in Tax Free Childcare. This will save £215 million by 2020.

**2.62** The government will protect the department's central children's services budget at over £300 million per year to help drive up social care workforce standards to improve support for vulnerable children.

**2.63** The government will introduce the first ever national funding formula for schools, high needs and early years. This will end the unfair system where a child from a disadvantaged background in one school attracts half as much funding as a child in identical circumstances in another school, simply because of where they live. There will be a transitional phase to help smooth the implementation of the new schools formula. The government will launch a detailed consultation in 2016 and will implement the new formulae from 2017-18.

**2.64** Savings of around £600 million will be made on the ESG, including phasing out the additional funding schools receive through the ESG. The government will reduce the local authority role in running schools and remove a number of statutory duties. The government will consult on policy and funding proposals in 2016.

**2.65** The government will help schools to make savings on procurement, including by exploiting economies of scale. In 2016 the government will publish a set of specific actions to support school leaders target over £1 billion a year in procurement savings by the end of the parliament through benchmarking, guidance and improved framework contracts.

**2.66** As part of the government's one-off restructuring of post-16 education and training, Sixth Form Colleges in England will be given the opportunity to become academies, allowing them to recover their non-business VAT costs. They will have the option of joining a Multi-Academy Trust if they choose too, which will help drive up standards and improve efficiency of 16-19 education by enabling further collaboration between schools and Sixth Form Colleges.

**2.67** The department will deliver 20% core administrative savings through greater efficiency.

## Department for Business, Innovation and Skills

Table 2.12: Department for Business, Innovation and Skills

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>2</sup>
Resource DEL <sup>1</sup>	12.9	13.4	12.3	11.7	11.5	*
Capital DEL	3.8	3.1	2.2	1.7	1.7	1.6
<b>Total DEL</b>	<b>16.6</b>	<b>16.5</b>	<b>14.5</b>	<b>13.4</b>	<b>13.2</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

## 2.68 The Department for Business, Innovation and Skills (BIS) settlement includes:

- **prioritising key growth and productivity objectives by protecting science resource funding in real terms, and maintaining Innovate UK support for businesses and funding for aerospace and automotive technologies in cash terms**
- **protecting funding for the core adult skills participation budgets in cash terms creating 5 prestigious National Colleges, and providing funding for a real terms protection for the overall budget for STEM subjects in higher education (HE)**
- **delivering 3 million high quality apprenticeships by 2020, compared to 2.4 million in the last Parliament<sup>1</sup> and putting employers in control of funding through a new levy**
- **an overall saving of £2.4 billion in 2019-20, achieved by switching HE maintenance grants to loans, exempting Energy Intensive Industries (EIIs) from the costs of renewables policy rather than paying cash compensation, asking universities to take more responsibility for student access, and finding £360 million in efficiencies and savings in adult skills**

### Long-term investment

**2.69** Science funding of £4.7 billion will be protected in real terms and total spend will be over £500 million higher by the end of the Parliament compared to 2015-16. This will include a £1.5 billion new Global Challenges Fund. The government is also taking steps to ensure these resources are used strategically and effectively through the Nurse Review recommendations and the HE green paper consultation.

**2.70** The government commits to funding aerospace and automotive technologies for 10 years. This will provide over £1 billion additional funding for innovation in these sectors.

**2.71** By 2019-20, government spending on apprenticeships will have doubled in cash terms compared to 2010-11<sup>2</sup>, including income from the new apprenticeship levy. Funding for the core adult skills participation budgets will be protected in cash terms and 5 National Colleges will train an estimated 21,000 students by 2020 in industries central to the productivity agenda such as digital and high speed rail.<sup>3</sup>

**2.72** The government will provide new financial support through maintenance loans for part-time HE students, tuition fee loans for higher level skills in Further Education and new loans for postgraduate Master's degrees, reaching £1 billion in 2019-20 and benefiting around 250,000 students.

### Efficiency and reform

**2.73** The government has lifted the cap on student numbers to allow more young people, particularly from disadvantaged backgrounds, to go to university than ever before. Universities forecast income growth of £2.3 billion by 2020 from the planned expansion of places for home, EU and international students.

**2.74** In this context, the government will reduce the teaching grant by £120 million in cash terms by 2019-20, but allow funding for high cost subjects to be protected in real terms. The government will work with the Director of Fair Access to ensure universities take more responsibility for widening access and social mobility, and ask the Higher Education Funding Council for England to retarget and reduce the student opportunity fund, focusing funding on institutions with the most effective outcomes. The government will also make savings in other areas of the teaching grant.

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<sup>1</sup> Further education and skills: statistical first release, available at <https://www.gov.uk/government/statistics>

<sup>2</sup> HM Treasury data.

<sup>3</sup> Subject to due diligence.

**2.75** Implementing the HE maintenance grants-to-loans switch announced at Summer Budget will save over £2 billion a year by 2019-20. This will ensure that universities can remain well funded and allows the numbers of students attending university to remain uncapped, and will also ensure that low and middle-income students have access to more support. Maintenance loan support will rise for students from low and middle-income backgrounds by up to £8,200 a year for those who are studying away from home, outside London. This is the highest level ever.

**2.76** To reduce government debt, the student loan repayment threshold for Plan 2 borrowers will be frozen until April 2021. The discount rate applied to student loans will be revised to 0.7% above RPI, to bring it into line with the government's long-term cost of borrowing. Taken together, this will reduce the government's estimate of the long-term student loans subsidy to around 30%.

**2.77** The government will introduce new finance products to support companies to innovate following best practice in countries such as France, Finland and the Netherlands. These will replace some existing Innovate UK grants, and reach £165 million per year by 2019-20, so that total Innovate UK support is maintained in cash terms.

**2.78** In order to prioritise spending on economic growth, BIS will reduce departmental administration spending by a further £100 million by 2019-20. This will contribute to a wider programme of reform, including further reducing the number of Arm's Length Bodies (ALBs), unlocking efficiencies through increased digitisation and increasing the pace of estates and workforce reform.

**2.79** Moving from cash compensation to an exemption from the costs of renewables levies will save £410 million a year by 2019-20 while providing greater certainty to ELLs, including the steel industry. At the same time the government will take offsetting action to mitigate the impact on household energy bills.

**2.80** The government will make £360 million of efficiencies and savings from adult skills budget by 2019-20. In order to prioritise funding for participation, savings are being made from the supporting budgets, such as the UK Commission for Employment and Skills. The government is also restructuring the sector through locally-led Area Reviews to provide sustainable and high quality provision in the future.

**2.81** Colleges currently receive approximately a third of apprenticeship spending. Key providers, including colleges, will be able to benefit from the significant increase in apprenticeship spending of almost £900 million by 2019-20.

## Department for Transport

Table 2.13: Department for Transport

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>2</sup>
Resource DEL <sup>1</sup>	2.6	2.0	2.1	2.2	1.8	*
Capital DEL	6.1	6.3	7.6	8.9	11.4	12.4
<b>Total DEL</b>	<b>8.7</b>	<b>8.3</b>	<b>9.7</b>	<b>11.1</b>	<b>13.2</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

### 2.82 The Department for Transport (DfT) settlement includes:

- **£46.7 billion capital investment by DfT over the next 5 years on High Speed 2 (HS2), roads and local transport which, together with Network Rail's investment programme, will deliver the biggest road improvement programme since the 1970s and the largest programme of rail investment since Victorian times**
- **pressing ahead with construction of HS2 beginning this Parliament, providing £300 million development funding for the next generation of transformative transport infrastructure, and £475 million of new funding to support construction of large local transport projects**
- **delivering better value for money for rail passengers by introducing flexible season tickets, ensuring that rail passengers have access to compensation when trains are over 15 minutes late, improving Wi-Fi and mobile connectivity on trains, and freezing rail fares in real terms (RPI) for the course of this Parliament**
- **overall resource savings of 37% by 2019-20, reducing the subsidy paid to rail franchises through reaping the efficiency benefits of competition, and phasing out the TfL Resource grant, representing a 6% efficiency saving to its annual budget**

### Security

**2.83** Economic security requires long-term investment in infrastructure across the country. To protect the UK's national security, the Spending Review doubles funding for aviation security, both in the UK and international airports used by UK Nationals<sup>4</sup>.

### Long-term investment

**2.84** The government has committed to fully funding the Roads Investment Strategy. Highways England will deliver 112 major roads schemes worth over £15 billion to 2020-21, with an average benefit of £4 for every £1 invested.<sup>5</sup>

**2.85** Construction will begin on HS2 during the Parliament, and the Spending Review confirms a funding envelope of £55.7 billion in 2015 prices, which will deliver HS2 from London to Birmingham by 2026, and to Leeds and Manchester by 2033. During construction, HS2 is anticipated to support up to 25,000 jobs and up to 2,000 apprenticeships.

**2.86** The government will also establish a new £300 million Transport Development Fund, supporting development work for transformative transport infrastructure projects. This could include providing development funding for projects such as Crossrail 2 and proposals emerging from the Northern Transport Strategy, following advice from the National Infrastructure

<sup>4</sup>SDSR 2015 p39, para 4.94.

<sup>5</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/381516/RIS\\_Facts\\_and\\_Figures.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/381516/RIS_Facts_and_Figures.pdf)

Commission. In addition, the government will provide £475 million of investment through the Local Majors Fund which will mean that local areas can bid for funding for projects such as the North Devon Link Road, the A391 in Cornwall, and the Lowestoft Third River Crossing and Ipswich Wet Dock Crossing.

**2.87** The government will spend more than £600 million between 2015-16 and 2020-21 to support uptake and manufacturing of ultra-low emission vehicles (ULEVs) in the UK, maintaining the global leadership that has seen 1 in 4 of all European electric vehicles built here and keep the UK on track for all new cars to be effectively zero emission by 2040. This investment will save 65 million tonnes of carbon and help deliver the Long Term answer on urban air quality.

**2.88** This settlement also commits more than £300 million to cycling investment between 2015-16 and 2020-21. This includes delivering in full the £114 million Cycle Ambition City scheme, with construction of segregated cycle lanes including 115 kilometres in Birmingham and 56 kilometres in Manchester.

### Efficiency and reform

**2.89** DfT will deliver substantial savings through driving increased efficiency in both the core department and its ALBs, including the DVLA's continued move to digital services saving a further £94 million this Parliament, and continued improvements to ticketing technology.

**2.90** The government will phase out the resource grant made to TfL, which represents 6% of TfL's annual budget and will support over £11 billion investments in London transport. This grant reduction will save £700 million in 2019-20 which could be achieved through further efficiency savings by TfL, or through generating additional income from the 5,700 acres of land TfL owns in London. The government will also provide TfL with additional financial flexibility, and over time will consider transferring the funding for the TfL Capital Grant as part of the Business Rate Retention reforms.

**2.91** DfT will release public sector land creating space to build 38,000 homes.

### Devolution

**2.92** The government will continue to devolve significant transport powers to Mayor-led city regions, including Greater Manchester, Sheffield City Region, Liverpool City Region, the North East, Tees Valley and the West Midlands.

## Department of Energy and Climate Change

Table 2.14: Department of Energy and Climate Change

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>2</sup>
Resource DEL <sup>1</sup>	0.9	0.9	1.0	1.0	0.9	*
Capital DEL	2.3	2.4	2.5	2.4	2.3	2.8
<b>Total DEL</b>	<b>3.3</b>	<b>3.3</b>	<b>3.4</b>	<b>3.3</b>	<b>3.2</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

### 2.93 The Department of Energy and Climate Change (DECC) settlement includes:

- **doubling DECC's innovation programme to £500 million over 5 years, which will strengthen the future security of supply, reduce the costs of decarbonisation and boost industrial and research capabilities**

- **funding for an ambitious nuclear research programme that will revive the UK's nuclear expertise**
- **a £1.7 billion share of the government's £5.8 billion International Climate Fund, which will help the poorest and most vulnerable countries decarbonise and adapt to the effects of climate change**
- **resource savings of 22% by 2019-20 delivered through efficiencies in corporate services and reducing the cost of contracts**

## Security

**2.94** The government will provide over £11 billion for the Nuclear Decommissioning Authority (NDA) to continue its vital work cleaning up historic nuclear sites. This includes making significant progress on the legacy ponds and silos at Sellafield, some of the most hazardous facilities in the UK.

## Long-term investment

**2.95** The government's doubling of investment in DECC's innovation programme will help position the UK as an international leader in small modular nuclear reactors, and deliver commitments on seed funding for promising new renewable energy technologies and smart grids.

**2.96** The government will provide £295 million over 5 years to improve the energy efficiency of schools, hospitals and other public sector buildings. Separately, over £300 million of funding for up to 200 heat networks will generate enough heat to support the equivalent of over 400,000 homes and leverage up to £2 billion of private capital investment.

## Efficiency and reform

**2.97** The government will increase funding for the Renewable Heat Incentive to £1.15 billion in 2021 to ensure that the UK continues to make progress towards its climate goals while reforming the scheme to improve value for money, delivering savings of almost £700 million by 2020-21.

**2.98** Between 2016-17 and 2019-20 the government will save over £1 billion by making efficiencies and savings in the NDA through; better value contracts; top class commercial procurement; delaying non-safety-critical projects; and cancelling a project that is no longer needed due to a world-first breakthrough in nuclear decommissioning research.

**2.99** DECC will deliver £220 million of resource savings by 2019-20 through efficiencies from pooling back office and corporate services, and reducing the costs of contracts to manage the country's historic coal and nuclear liabilities.

## Department for Culture, Media and Sport

Table 2.15: Department for Culture, Media and Sport

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>2</sup>
Resource DEL <sup>1</sup>	1.1	1.2	1.2	1.2	1.1	*
Capital DEL	0.4	0.4	0.4	0.4	0.3	0.2
<b>Total DEL</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

### 2.100 The Department for Culture, Media and Sport (DCMS) settlement includes:

- ensuring continued free access to national museums and galleries as part of a settlement that maintains funding in cash terms for museum, galleries and the arts
- increased central government funding to elite sport to build on the success of the London 2012 Olympic and Paralympic games at Rio 2016 and Tokyo 2020 and a flat cash settlement for grassroots sports funding
- £1.6 billion of capital investment over the next 5 years
- a reduction in core DCMS administrative costs and reforms including a new operating model for the Royal Parks to ensure a sustainable financial future

### Security

**2.101** Less than 1% of total government expenditure goes to culture, media and sport; sectors which account for almost a sixth of the UK economy.<sup>6</sup>

**2.102** The UK will provide international support for cultural heritage in global conflict zones, with £30 million ODA funding between 2016-17 and 2019-20 for a new Cultural Protection Fund.

### Long-term investment

**2.103** Up to £550 million will be invested over the Parliament to make the 700Mhz spectrum band available for mobile broadband use. The government will complete the £1.7 billion investment into the superfast broadband programme to ensure it is available to 95% of premises by 2017.

**2.104** To ensure the benefits of digital communications infrastructures are felt across the economy and translated into productivity gains, the government will publish a Digital Transformation Plan in early 2016.

**2.105** The government will invest £150 million to support the British Museum, Science Museum and Victoria and Albert Museum to replace out of date museum storage at Blythe House with new world-class storage facilities to preserve and protect over 2 million fragile and sensitive objects.

**2.106** The government will work with museums and galleries to explore the case for introducing a new tax relief for the sector.

<sup>6</sup> <https://www.gov.uk/government/publications/ad-hoc-statistical-analysis-2015-quarter-4-gva-of-dcms-sectors/gva-of-dcms-sectors>

**2.107** The government confirms £20 million investment to expand the Great Exhibition of the North and to create a new Great Exhibition Legacy Fund.

### Efficiency and reform

**2.108** The government will provide sufficient funding to ensure that the new English Heritage commercial model which went live earlier this year can be successfully implemented.

**2.109** The government will make permanent the operational freedoms for national museums announced at Spending Review 2013, which will be extended to other public institutions including the British Film Institute (BFI), the National Army Museum, the National Museum of the Royal Navy, the Royal Air Force Museum, Historic England and the Churches Conservation Trust. This measure enables these important institutions to become more self-sufficient and continue providing efficient and high quality services.

## Department for Communities and Local Government

Table 2.16: Department for Communities and Local Government

	£ billion					
	Baseline			Plans		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>2</sup>
Resource DEL <sup>1</sup>	1.5	1.4	1.4	1.3	1.2	*
Capital DEL	3.1	4.0	3.7	4.0	3.6	4.3
<b>Total DEL</b>	<b>4.6</b>	<b>5.4</b>	<b>5.1</b>	<b>5.3</b>	<b>4.7</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

### 2.110 The Department for Communities and Local Government (DCLG) settlement includes:

- more than £20 billion of gross capital investment over the next 5 years to support housing and local growth
- doubling the housing budget from 2018-19 to deliver 400,000 new homes, the biggest affordable house building programme by a government since the 1970s
- further spending on targeted initiatives that tackle homelessness and support the victims of domestic violence
- overall resource savings of 29% by 2019-20 through better financial management and further efficiency

### Security

**2.111** The government will double the housing budget from 2018-19 to deliver at least 400,000 affordable homes including 200,000 Starter Homes, 135,000 new Help to Buy Shared Ownership homes and 10,000 Rent to Buy homes. The government will also extend the Right to Buy scheme to Housing Association tenants, create a London Help to Buy scheme with a 40% equity loan, release enough public sector land for 160,000 homes, and provide £310 million of funding to deliver 15,000 homes at Ebbsfleet, the first garden city in the UK for over 100 years.

**2.112** To protect the most vulnerable in society, the government will maintain current levels of spending on homelessness support services in real terms and provide £40 million for services for victims of domestic abuse, tripling the dedicated funding provided compared to the previous four years.

**2.113** The government will continue to invest in the Troubled Families programme to deliver better outcomes for 400,000 families by 2020 with efficiencies found from central budgets. From 2017-18 the government will devolve and reform increased funding for managing temporary accommodation, giving local authorities more control and flexibility.

**2.114** To reduce division and build cohesive communities, the government will maintain current levels of funding for community integration programmes. This funding will be targeted to support the recommendations of Louise Casey's review of opportunity and integration in isolated and deprived communities. The government remains committed to preserving the memory of the Holocaust through the creation of a world leading memorial and learning centre.

### **Long-term investment**

**2.115** The government will support growth and job creation through a new wave of Enterprise Zones and extending the Coastal Communities Fund to 2020-21.

**2.116** The government will support areas to make the most of the economic opportunities created by HS2 and will continue to provide funding to support regeneration schemes at Bicester, Brent Cross, Ebbsfleet and the Queen Elizabeth Olympic Park.

### **Efficiency and reform**

**2.117** DCLG will deliver substantial savings through better financial management, enabling the removal of budgetary contingencies that are no longer required and further efficiencies. This includes a further 20% reduction in the department's paybill, with total savings of £94 million from administration expenditure by 2019-20.

**2.118** DCLG will also work closely with the Valuation Office Agency to digitise the collection of local taxes, funded through up-front capital investment. This will generate efficiencies and support the move to full business rates retention.

**2.119** DCLG will provide at least £74 million of funding for the Emergency Services Mobile Communications Programme, to ensure fire and rescue services can benefit from the latest mobile digital technology.

**2.120** The government will consult on reforms to the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes. It will further consult on reducing the length of payments from 6 years to 4 years.

### **Devolution**

**2.121** DCLG will operate the £12 billion Local Growth Fund, which is more than double the size of equivalent funds in the last Parliament, and will empower local communities to deliver growth by giving them greater control of public spending, allowing them to target their own priorities.

**2.122** DCLG will continue to oversee delivery of devolution deals agreed with city regions and other areas.

## Local Government

Table 2.17: Local Government

	£ billion					
	Baseline			Plans		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
DCLG Local Government DEL <sup>1</sup>	11.5	9.6	7.4	6.1	5.4	*
Locally financed expenditure <sup>2</sup>	28.8	29.0	31.5	33.6	35.1	*
<b>Local government spending<sup>3</sup></b>	<b>40.3</b>	<b>38.6</b>	<b>38.9</b>	<b>39.7</b>	<b>40.5</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> Treasury/DCLG analysis based on data underlying the OBR's Local Authority Current Expenditure (England) forecast.

<sup>3</sup> Does not include the impact of business rate reforms, which the government will consult on shortly.

### 2.123 The Local Government (LG) settlement includes:

- **reductions to local government grant of £6.1 billion by 2019-20, though given forecast increases to other sources of local government income, overall local government spending will be higher in cash terms by 2019-20 than in 2015-16**
- **£3.5 billion of support for adult social care by 2019-20 through a new social care 'precept' and an expanded Better Care Fund to support health and social care integration**
- **plans to consult on changes to the local government finance system including to rebalance support to those authorities with social care responsibilities**
- **support to help local government become more efficient through new flexibility for local authorities to spend receipts from asset sales on reform projects**

### Security

**2.124** A social care council tax 'precept' of 2% will allow councils responsible for delivering adult social care to raise up to £2 billion a year by 2019-20. Local authorities will be given this additional 2% flexibility on their current council tax referendum threshold to be used entirely for adult social care. In addition, by 2019-20, the government will make £1.5 billion available to local authorities to add to the Better Care Fund and support better joint working between health and social care. Together, this £3.5 billion investment will help secure services for the most vulnerable.

### Long term investment

**2.125** The government will allow directly elected mayors to add a premium to business rates to pay for new infrastructure, provided they have the support of the local business community through a vote of the majority of the business members of the Local Enterprise Partnership board. The uniform business rate will be abolished and all local authorities will gain the power to reduce rates to support business and job growth.

### Efficiency and reform

**2.126** DCLG will consult on changes to the local government finance system to pave the way for the implementation of 100% business rate retention. The consultation will take into account all the main resources currently available to councils, including council tax and business rates.

**2.127** The revenue support grant, which represents less than a quarter of local government total resources, will be phased out. Other sources of income such as council tax and business rates are forecast to grow by £6.3 billion by 2019-20.

**2.128** To reform services and make them more efficient, local authorities will have new flexibilities to spend 100% of their fixed asset receipts (excluding Right to Buy receipts) on

the revenue costs of reform projects. The detail on how this will work will be set out by DCLG alongside the Local Government settlement in December 2015.

**2.129** To further encourage local authorities to release surplus assets and invest in making their services more efficient, the government will: strengthen communities' rights to reclaim local authority land and property (the Right to Contest); consult on updating the Transparency Code to require all local authorities to record details of their land and property assets in a consistent way; extend the One Public Estate programme with £31 million to support local authorities to design more efficient asset management strategies; and, provide support to dispose of local authority sites which could be used for housing.

**2.130** The government will also issue new guidance to encourage local authorities to rein in excessive salaries.

## Devolution

**2.131** By the end of the Parliament, local government will retain 100% of business rate revenues. Alongside savings announced elsewhere, this will come with additional responsibilities and empower local authorities to deliver services in a way that is right for their area. For example, the government will consider transferring responsibility for funding the administration of Housing Benefit for pensioners, TfL's capital projects to local government and will also consult on options to transfer responsibility for funding public health. The government will consult on these and other additional responsibilities in 2016.

## Devolved Administrations

Table 2.18: Devolved Administrations

	£ billion					
	Baseline		Plans			
	2015-16	2016-17 <sup>2</sup>	2017-18	2018-19	2019-20	2020-21 <sup>3</sup>
<b>Scotland:</b>						
Resource DEL <sup>1</sup>	25.9	26.1	26.3	26.3	26.5	*
Capital DEL	3.0	3.2	3.2	3.2	3.4	3.5
<b>Total DEL</b>	<b>28.8</b>	<b>29.3</b>	<b>29.5</b>	<b>29.6</b>	<b>29.8</b>	<b>*</b>
<b>Wales:</b>						
Resource DEL <sup>1</sup>	12.9	13.0	13.1	13.2	13.3	*
Capital DEL	1.5	1.5	1.5	1.6	1.6	1.7
<b>Total DEL</b>	<b>14.4</b>	<b>14.6</b>	<b>14.7</b>	<b>14.8</b>	<b>14.9</b>	<b>*</b>
<b>Northern Ireland:</b>						
Resource DEL <sup>1</sup>	9.7	9.8	9.9	9.9	9.9	*
Capital DEL	1.1	1.1	1.1	1.2	1.2	1.2
<b>Total DEL</b>	<b>10.7</b>	<b>10.9</b>	<b>11.0</b>	<b>11.0</b>	<b>11.1</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> The Government agreed that as part of the £3bn savings in 2015-16, as announced on 4 June 2015, the devolved administrations could defer their cuts to 2016-7. We assume here that all the devolved administrations take their reductions in 2016-17. These settlements are subject to change as the devolved administrations finalise their spending plans.

<sup>3</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

**2.132 The Spending Review sets out the block grant allocations for the Devolved Administrations, ensuring security of funding for public services within their control – including health, schools, local government, transport and housing. The application of the Barnett Formula to UK government spending delivers:**

- **over £105 billion of resource funding over 4 years for the Scottish Government – an average real terms reduction of 1.3% per year**
- **over £52 billion of resource funding over 4 years for the Welsh Government – an average real-terms reduction of 1.1% per year, alongside, a new funding floor which sets the level of relative funding for the Welsh Government at a minimum of 115% of comparable UK government spending per head**
- **over £39 billion of resource funding over 4 years for the Northern Ireland Executive, an average real terms reduction of 1.3% per year**
- **significant real terms increases in capital allocations for each of the Devolved Administrations through the block grant**

## Security

**2.133** For Northern Ireland, the government confirms that the funding package which will support the full implementation of the Stormont House Agreement includes additional support of £160 million for the Police Service of Northern Ireland.

**2.134** The Strategic Defence and Security Review includes the decision to buy 9 new Maritime Patrol Aircraft, which will be based in RAF Lossiemouth alongside Typhoon aircraft performing Quick Reaction Alert making Scotland the first line of defence against incursion. The government will maintain one of the most capable anti-submarine fleets in the world with the introduction of eight advanced Type 26 Global Combat Ships, which will be built on the Clyde. 2 further new Offshore Patrol Vessels will also be built in Scotland.

## Long-term investment

**2.135** The Spending Review includes real terms increases in capital budgets for each of the Devolved Administrations.

**2.136** Implementation of the City Deal for Glasgow and the Clyde Valley is well underway, and the government is now giving an in-principle commitment to contribute to an infrastructure fund for the Cardiff Capital Region.

**2.137** The government also reaffirms the Scottish Government's access to up to £2.2 billion of capital borrowing under the Scotland Act 2012.

**2.138** Implementation of the Wales Act 2014 will also provide the Welsh Government with £500 million of borrowing powers to invest in capital projects from 2018. Early access to borrowing powers has been granted to help finance an enhancement to the M4.

**2.139** Implementation of the Stormont House Agreement will unlock £500 million for the Northern Ireland Executive to invest in integrated schools and housing, as well as £350 million of additional borrowing to support economically significant infrastructure.

## Devolution

**2.140** The UK government is committed to implement the Smith Commission Agreement in full. As part of the ongoing implementation of the Scotland Act 2012 Stamp Duty Land Tax and Landfill Tax were devolved in Scotland from April 2015. The Scottish Rate of Income Tax is due to be commenced in April 2016.

**2.141** The Wales Act 2014 devolves Stamp Duty Land Tax and Landfill Tax to the Welsh Assembly, and creates new Welsh Rates of Income Tax. The government will legislate to remove the requirement for the Welsh Assembly to hold a referendum in order to implement the Welsh Rates of Income Tax to reflect the change in the debate in Wales.

**2.142** The government remains committed to the devolution of corporation tax powers to the Northern Ireland Assembly, subject to the Northern Ireland Executive demonstrating that its finances have been put on a sustainable footing and that the range of commitments entered into in the Stormont House Agreement have been met. The Northern Ireland parties have now indicated that they wish to pursue the implementation of a new Northern Ireland corporation tax rate of 12.5% in April 2018.

## Ministry of Justice

Table 2.19: Ministry of Justice

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>2</sup>
Resource DEL <sup>1</sup>	6.2	6.5	6.3	5.8	5.6	*
Capital DEL	0.4	0.7	0.7	0.7	0.4	0.1
<b>Total DEL</b>	<b>6.5</b>	<b>7.2</b>	<b>7.0</b>	<b>6.5</b>	<b>6.0</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

Table 2.20: Law Officers' Departments

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Resource DEL <sup>1</sup>	0.5	0.5	0.5	0.5	0.5	*
Capital DEL	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total DEL</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

### 2.143 The Ministry of Justice (MoJ) settlement includes:

- **£1.3 billion of capital investment over the next 5 years to transform the prison estate to better support rehabilitation**
- **more than £700 million investment in the courts and tribunals system to create a swifter, more proportionate justice system, which will generate savings of approximately £200 million a year from 2019-20**
- **savings to the department's administrative budget of 50% by 2019-20**
- **overall resource savings of 15% by 2019-20 including by delivering efficiencies within the prisons and courts systems**

### Long-term investment

**2.144** £1.3 billion will be invested to reform and modernise the prison estate to make it even more efficient, safer and focused on supporting prisoner rehabilitation. The government will build 9 new, modern prisons – 5 of which will open this Parliament – with better education facilities and other rehabilitative services, while selling ageing, inefficient prisons on prime real estate to free up land for new homes.

### Efficiency and reform

**2.145** By investing in the prison estate, the government will reduce running costs in prisons by £80 million a year when the reforms are complete. New investment will also fund video

conference centres, allowing up to 90,000 cases to be heard from prison instead of court, and will deliver more safety improvements in prisons, including body scanners and mobile phone blocking technology.

**2.146** These reforms will reduce reoffending through more effective rehabilitation, and will reduce the cost of transporting prisoners between courts and prisons, stamp out the organisation of crime from within prisons, and stem the availability of drugs and other illicit substances. This builds on the probation reforms undertaken in the last Parliament, which will reduce the costs of the system and reinvest them into extending probation support to 45,000 short-sentence offenders for the first time, to tackle reoffending.

**2.147** The Spending Review invests in the ongoing HM Courts and Tribunal Service reform programme, which is rationalising the under-used court estate. Over £700 million will be invested to fully digitise the courts and create a more modern estate. This will generate savings to the taxpayer of approximately £200 million a year from 2019-20. The government will also look at changes to court fees as it continues to put the courts on a more sustainable financial footing.

**2.148** Together the investment in the courts and prisons systems will enable MoJ to release land for more than 5,000 homes.

**2.149** By focusing on its reform priorities and delivering significant efficiencies within its back office running costs, MoJ will be able to reduce its administrative budget by 50% by 2019-20.

## Department for Environment, Food and Rural Affairs

Table 2.21: Department for Environment, Food and Rural Affairs

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>2</sup>
Resource DEL <sup>1</sup>	1.5	1.7	1.6	1.5	1.4	*
Capital DEL	0.5	0.6	0.6	0.6	0.5	0.5
<b>Total DEL</b>	<b>2.0</b>	<b>2.3</b>	<b>2.2</b>	<b>2.1</b>	<b>1.9</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

**2.150 The Department for Environment, Food and Rural Affairs (DEFRA) settlement includes:**

- **protection of flood defence funding, including the £2.3 billion 6 year capital investment programme to better protect over 300,000 homes<sup>7</sup>**
- **over £130 million capital investment in DEFRA's science estates and equipment by 2020-21, including funding to enhance national outbreak response capabilities**
- **£3 billion investment to safeguard England's countryside through the Common Agricultural Policy, and protection of over £350 million funding for public forests, National Parks and Areas of Outstanding Natural Beauty over the Spending Review period**
- **resource savings of 15% in real terms by 2019-20, delivered through efficiencies within the department and across its network**

<sup>7</sup> <https://www.gov.uk/government/news/23-billion-to-be-spent-on-new-flood-defences--24>

## Security

**2.151** The government will continue to prioritise investment in flood defences. The government's £2.3 billion capital programme will invest in over 1,500 schemes to give 300,000 homes greater security from flooding by 2021. Flood defence maintenance funding will also be protected, and DEFRA will work with the Environment Agency to generate 10% efficiencies by 2019-20 with all savings reinvested to better protect another 4,000 homes.

## Long-term investment

**2.152** To maintain its world-class response and recovery capabilities, the government will prioritise spending on animal and plant disease prevention and will invest £130 million capital funding in DEFRA's science estates by 2020-21. The government will also continue to invest in implementing its 25-year strategy to eradicate bovine tuberculosis.

**2.153** The government will invest over £3 billion to enhance England's countryside through the Common Agricultural Policy and funding for public forests will be safeguarded, with 11 million trees planted over the Parliament. Funding for National Parks and Areas of Outstanding Natural Beauty will also be protected, and National Parks will be given legal flexibilities to allow them to build sustainable, long-term revenue streams and boost growth in rural areas.

**2.154** South West Water customers will continue to benefit from £50 off their bills throughout this Parliament, in recognition of the higher costs faced by water customers in the South West.

## Efficiency and reform

**2.155** Through its ambitious efficiencies programme, DEFRA will become a more streamlined, digital department, sharing back office functions like IT, human resources and finance with its network bodies to reduce unnecessary bureaucracy, and devolving roles to the local frontline to ensure effective service delivery.

**2.156** Through this programme, DEFRA will reduce its administration budgets by 26% by 2019-20, saving £123 million.

**2.157** DEFRA will continue to reduce costly bureaucracy and red tape, securing net savings to business of £470 million by the end of the Parliament. As part of this, DEFRA will set up a Single Farm Inspection Taskforce to reduce the burden on farmers, aiming to cut farm inspections by 20,000 by 2019-20.

## HM Revenue and Customs

Table 2.22: HM Revenue and Customs

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>3</sup>
Resource DEL <sup>1</sup>	3.3	3.5	3.4	3.1	2.9	*
Capital DEL <sup>2</sup>	0.1	0.2	0.2	0.2	0.2	0.2
<b>Total DEL</b>	<b>3.5</b>	<b>3.8</b>	<b>3.6</b>	<b>3.4</b>	<b>3.1</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> Includes £45m over the period for the Valuation Office Agency.

<sup>3</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

### 2.158 The HM Revenue and Customs (HMRC) settlement includes:

- **£717 million of sustainable resource savings a year by 2019-20, achieving £1.9 billion cumulative savings over the Spending Review period, representing a**

## headline 21% reduction in baseline resource costs, delivered through digitisation of tax collection and a smaller but more highly skilled workforce

- **£1.3 billion reinvested to transform HMRC into one of the most digitally advanced tax administrations in the world, with access to digital tax accounts for all small businesses and individuals by 2016-17, delivering an additional £1 billion of tax revenue by 2020-21 and sustainable efficiencies**
- **£800 million confirmed funding for additional work to tackle evasion and non-compliance in the tax system, delivering an additional £7.2 billion over the next 5 years**
- **£400 million total reduction in business customer costs by 2019-20**

### Security

**2.159** HMRC will continue to tackle fraud and error in the tax credits system and will work with debt collection agencies to collect £324 million of tax credit debts owed by 2019-20.

### Long-term investment

**2.160** This Spending Review confirms funding to maintain HMRC's current level of compliance performance while making efficiencies, and £800 million to fund additional work to tackle evasion and non-compliance by 2020-21. The government is committed to raising an additional £5 billion a year through tackling avoidance, aggressive tax planning, evasion, non-compliance and imbalances in the tax system by 2019-20.

### Efficiency and reform

**2.161** Through re-investment of £1.3 billion HMRC will transform into one of the most digitally advanced tax administrations in the world, becoming more effective, efficient and easier for taxpayers to deal with while delivering sustainable efficiencies and almost £1 billion of additional tax revenues by reducing errors through record-keeping. All individuals and businesses will be able to view their tax affairs in real time, providing them with greater certainty about the tax they owe. HMRC expects the number of calls to reduce from 38 million in 2015-16 to 15 million in 2019-20, as customers increasingly find all the information and services they need online.

**2.162** HMRC will find significant savings by consolidating its estate from 170 offices to 13 large, modern regional centres. These centres will bring staff into more cost-effective buildings while making it easier for HMRC teams to collaborate and modernise the way they work.

## HM Treasury

Table 2.23: HM Treasury

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>2</sup>
Resource DEL <sup>1</sup>	0.2	0.2	0.2	0.1	0.1	*
Capital DEL	0.0	0.1	0.1	0.1	0.1	0.0
<b>Total DEL</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

### 2.163 The HM Treasury (HMT) settlement includes:

- **£0.3 billion of capital investment to 2019-20 which will include part of the UK's contribution to the Asian Infrastructure Investment Bank**

- continued management of the process to reduce the deficit and support the economic recovery, including through the sale of the financial sector assets acquired in 2008-09
- expanding the work of the Office for Budget Responsibility to continue to increase transparency and trust in forecasts
- overall resource savings of 24% by 2019-20 through reducing staffing levels and controlling non-pay spending

## Security

**2.164** In order to support increased confidence in the economy, promote intergenerational fairness and control public spending, HMT will continue to act to reduce the deficit, rebalance and strengthen the wider economy, and reduce risks to financial stability.

**2.165** Setting up the Office of Financial Sanctions Implementation to ensure financial sanctions are properly understood, implemented and enforced will help maintain the integrity of and confidence in the UK financial services sector.

## Long-term investment

**2.166** The independent National Infrastructure Commission will enable long term strategic decision making to build effective and efficient infrastructure for the UK. In addition, HMT will continue its work to ensure high standards of conduct in financial services and promote growth and competitiveness.

## Efficiency and reform

**2.167** HMT is setting up UK Government Investments Limited, bringing together the Shareholder Executive and UK Financial Investments to increase operational flexibility in the delivery of the government's asset sale programme. HMT will reduce running costs through back office contract renegotiations and by seeking additional income from the use of its building.

## Cabinet Office

Table 2.24: Cabinet Office

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>3</sup>
Resource DEL <sup>1, 2</sup>	0.3	0.6	0.6	0.5	0.6	*
Capital DEL	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total DEL</b>	<b>0.4</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>*</b>

<sup>1</sup> In this table, Resource DEL excludes depreciation.

<sup>2</sup> National Citizen Service is part of Cabinet Office DEL.

<sup>3</sup> 2020-21 Resource DEL departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

### 2.168 The Cabinet Office (CO) settlement includes:

- funding for the expansion of the National Citizen Service to deliver up to 300,000 places by 2019-20, supporting hundreds of charities and third sector providers
- £282 million of resource funding and up to £90 million of capital funding by 2019-20 for a series of cross-government digital and property programmes that will deliver savings and improve services such as GOV.UK Pay, a new and simpler way to pay the government

- **expanding support for Social Impact Bonds, providing £80 million of the £105 million total across government over the Parliament, to uplift funding for locally designed schemes, tackling issues such as youth unemployment**
- **annual resource savings of £60 million by 2019-20 from efficiencies such as reducing the costs of finance and HR and rationalising headcount**

## Security

**2.169** The government will continue to protect funding for the National Security Secretariat and Joint Intelligence Organisation.

## Efficiency and reform

**2.170** CO remains committed to driving efficiency and reform across government through the Chief Executive's Group.

**2.171** The Government Digital Service will deliver cross-government programmes that will improve public services and deliver efficiencies including:

- a Common Technology Services programme will allow the Civil Service to purchase consistent, flexible and modern IT, driving savings and improving performance
- a new way of delivering digital services, Government As A Platform, will provide a common set of core systems that enable government departments to share digital services, technology and processes
- the development of the GOV.UK Verify programme to enable individuals to prove their identity online and to access government services securely and safely

**2.172** The Government Property Unit will deliver a new property model to own and manage the central government estate, with departments paying market-level rents for freehold assets they own. £31 million of funding for One Public Estate will support local authorities to use their assets more effectively.

**2.173** The CO will make efficiencies in its corporate services, finding savings in HR, Finance and IT services and rationalising headcount.

**2.174** The Office for Civil Society will continue to provide a range of support to the UK's third sector, but it will reduce its headcount and widen the availability of Social Impact Bonds.

## Small and Independent Bodies

Table 2.25: Small and Independent Bodies (Resource DEL excluding depreciation)

	£ million					
	Baseline	Plans				
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>1</sup>
<b>Departmental Programme and Administration Budgets</b>						
Scotland Office and Office of the Advocate General	9	9	9	9	10	*
Northern Ireland Office	19	19	20	20	21	*
Wales Office	4	4	4	5	5	*
UK Trade & Investment	299	307	293	277	277	*
National Savings and Investments	146	143	131	130	118	*
Charity Commission	20	20	20	20	20	*
Competition and Markets Authority	66	66	66	66	66	*
Office for National Statistics	145	159	168	165	157	*
Food Standards Agency	85	85	85	85	85	*
The National Archives	28	28	28	28	28	*
UK Supreme Court	4	4	4	4	4	*
Economic Regulators <sup>2</sup>	Neg	Neg	Neg	Neg	Neg	*
Independent Bodies <sup>3</sup>	646	659	669	678	689	*
<b>Total</b>	<b>1,472</b>	<b>1,504</b>	<b>1,498</b>	<b>1,488</b>	<b>1,480</b>	<b>*</b>

<sup>1</sup> 2020-21 departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

<sup>2</sup> The economic regulators and income or levy-funded bodies include: the Government Actuary's Department (GAD), the Office of Gas and Electricity Markets (Ofgem), the Office of Rail Regulation (ORR), Water Services Regulation Authority (Ofwat), the Civil Aviation Authority (CAA) and UK Export Finance (UKEF).

<sup>3</sup> Independent Bodies include: the Electoral Commission, House of Commons, House of Lords, Parliamentary and Health Service Ombudsman, Independent Parliamentary Standards Authority (IPSA), the Local Government Boundary Commission for England (LGBCE) and the National Audit Office (NAO). They are not formally subject to the Spending Review process and their plans reflect forecasted values.

### 2.175 Small and Independent Bodies' settlements includes:

- **protected funding in real terms for the Territorial Offices to continue to strengthen relationships between the UK government and the devolved administrations**
- **£175 million for UK Trade and Investment to develop into a world-class export promotion and investment agency which enhances direct support for business**
- **funding for the Law Officers' Department to protect its core function in supporting the Criminal Justice system and legal services across government**
- **funding for National Savings and Investments to implement efficiency reforms that will deliver £40 million of real terms savings in future years**

**2.176** Regulators and other organisations funded by the sector they serve include: the Government Actuary's department, the Office of Gas and Electricity Markets, the Office of Rail Regulation, the Water Services Regulation Authority and UK Export Finance. The budgeting treatment applied to these bodies differs from other spending departments, and therefore they cannot deliver cash savings. However, in line with the government's commitment to improving efficiency, these bodies have been asked to reduce their costs, with efficiency savings being passed directly to customers and businesses through lower charges.

**2.177** Independent Bodies include the Electoral Commission, House of Commons, House of Lords, Parliamentary and Health Service Ombudsman, Independent Parliamentary Standards Authority, the Local Boundary Commission for England and the National Audit Office. These bodies do not form part of the Executive and are not formally subject to the Spending Review process. However, their spending is classified as public expenditure and so Table 2.25 reflects their forecast spending plans.

# 3

## Policy decisions

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**3.1** Chapter 1 explains how the measures announced in this Spending Review and Autumn Statement advance the government's long-term economic plan and Chapter 2 lays out the government's plans for Departmental Expenditure Limits (DEL) as part of the Spending Review. This chapter provides a brief description of all policy decisions that do not relate to DEL. These are decisions on tax measures, National Insurance contributions (NICs), measures that affect Annually Managed Expenditure (AME), and other policy measures. Unless stated otherwise, measures in this chapter are measures announced at this Spending Review and Autumn Statement. The tables in this chapter set out the cost or yield of all policy decisions with a fiscal impact in the years up to 2020-21.

### Fiscal impact of Spending Review and Autumn Statement policy decisions

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

**3.3** Table 3.1 shows the cost or yield of all new decisions with a direct effect on public sector net borrowing. This includes tax measures, changes to allocated DEL in 2015-16 and measures affecting AME, including the total fiscal impact of the measures affecting the welfare cap.

**3.4** Consistent with its commitment to transparency, the government is also publishing the methodology underlying the calculation of the fiscal impact of each policy decision. This is included in the supplementary document 'Spending Review and Autumn Statement 2015 policy costings' published on [www.gov.uk](http://www.gov.uk) alongside this Spending Review and Autumn Statement.

**3.5** The supplementary document 'Overview of Legislation in Draft', to be published on [www.gov.uk](http://www.gov.uk) on Wednesday 9 December 2015, provides a more detailed explanation of tax measures included in this chapter and a summary of their impacts.

Table 3.1: Autumn Statement 2015 policy decisions<sup>1</sup>

		£ million						
	Head	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	
<b>Business, growth and skills</b>								
1	Apprenticeship Levy (funding employer apprenticeship scheme)	Tax	0	0	+2,730	+2,845	+2,970	+3,095
2	Business Rates: small business relief extension <sup>2</sup>	Tax	0	-700	+40	+15	0	0
3	Enterprise Zones	Tax	0	*	-10	-15	-15	-5
4	Royal Mail share scheme	Spend	-45	0	0	0	0	0
<b>Property and housing</b>								
5	Stamp Duty Land Tax: higher rates on additional properties	Tax	+30	+625	+700	+760	+825	+880
6	Stamp Duty Land Tax: bringing forward payments	Tax	0	0	+110	+10	+10	+10
7	Capital Gains Tax: reduce payment window for residential property	Tax	0	0	0	0	+930	+230
8	Temporary accommodation: impact of new funding mechanism <sup>3</sup>	Spend	0	0	+225	+235	+245	+260
<b>Energy, environment and transport</b>								
9	Renewable Heat Incentive: capping costs and improving value for money	Spend	0	+30	+100	+245	+460	+690
10	Landfill Communities Fund: reform	Tax	0	+20	+20	+20	+20	+20
11	Flood Re: levy and premiums income	Spend	-10	+75	+65	+70	+70	+65
12	Company Car Tax: retain the diesel supplement until 2021	Tax	0	+280	+275	+275	+265	+265
13	Insurance Premium Tax: reform to motor insurance claims rules	Tax	0	0	-35	-45	-55	-55
<b>Avoidance, evasion and tax planning</b>								
14	Stamp Duty Reserve Tax: options abuse	Tax	0	+35	+40	+40	+40	+45
15	Venture capital schemes: restrictions on use	Tax	+15	+95	+95	+95	+90	+95
16	Capital allowances and leasing: reducing avoidance	Tax	+5	+25	+40	+30	+20	+20
17	Corporation Tax: disposals of intangible fixed assets to related parties	Tax	+15	+45	+70	+35	+30	+25
18	Company distributions: preventing avoidance	Tax	0	*	+35	+20	+15	+10
19	General Anti-Abuse Rule: penalties	Tax	*	+10	+20	+25	+5	+5
<b>Modernising the tax and benefit system</b>								
20	Making Tax Digital: reducing errors through record keeping	Tax	0	0	*	+10	+300	+610
21	Corporation Tax: special rate on restitution payments	Tax	+270	+55	+55	+75	+100	+115
22	Fraud, error and debt: DWP and HMRC changes	Spend	0	+85	+135	+105	+135	+145

		£ million						
	Head	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	
<b>Welfare</b>								
23	Tax credits: maintain taper and income threshold	Spend	0	-3,385	-2,875	-1,735	-910	-465
24	Universal Credit: updated delivery schedule	Spend	0	+60	+250	+225	+70	-215
25	Universal Credit: uprate Minimum Income Floor with National Living Wage	Spend	0	*	+10	+55	+120	+180
26	Housing Benefit: limit social sector rates to the equivalent private sector rate	Spend	0	0	0	+120	+170	+225
27	Housing Benefit and Pension Credit: limit temporary absence	Spend	0	+25	+20	+15	+10	+10
28	Childcare: revised eligibility criteria	Spend	0	+10	+70	+90	+110	+125
<b>Pensions and pensioners</b>								
29	Pensions automatic enrolment: align with start of tax year	Tax	0	0	+390	+450	-10	-10
30	Pension Credit Savings Credit: freeze	Spend	0	+135	+130	+125	+125	+120
31	Social care reforms: updated implementation date	Spend	0	+105	+110	+100	+75	-75
<b>TOTAL POLICY DECISIONS</b>			<b>+280</b>	<b>-1,965</b>	<b>+2,815</b>	<b>+4,295</b>	<b>+6,220</b>	<b>+6,420</b>
<i>Of which: welfare cap policy decisions</i>			-5	-2,970	-1,920	-670	+140	+290
<b>Total tax policy decisions</b>			+335	+585	+4,545	+4,620	+5,520	+5,335
<i>Of which: Apprenticeship Levy</i>			0	0	+2,730	+2,845	+2,970	+3,095
<b>MEMO: SPENDING REVIEW: SAVINGS FROM DEPARTMENTAL RESOURCE BUDGETS<sup>4</sup></b>				<b>+600</b>	<b>+4,400</b>	<b>+8,400</b>	<b>+12,200</b>	

\* Negligible

<sup>1</sup> Costings reflect the OBR's latest economic and fiscal determinants.

<sup>2</sup> Costing includes the impact on local government grants which have been incorporated in departmental settlements.

<sup>3</sup> This reflects the reduction in Annually Managed Expenditure from this measure. Funding for managing temporary accommodation will be included within DCLG Communities DEL. See Chapter 3 for further detail.

<sup>4</sup> RDEL savings calculated compared to a counterfactual in which RDEL excluding depreciation grows in line with whole economy inflation from its 2015-16 level (excluding the OBR's Allowance for Shortfall).

## Public Spending

### Financial transactions and contingent liabilities

**3.6** A number of policy measures announced in the Autumn Statement do not directly affect public sector net borrowing (PSNB) in the same way as conventional spending or taxation. This includes financial transactions that only affect the central government net cash requirements (CGNCR) and public sector net debt (PSND), and transactions likely to be recorded as contingent liabilities. Table 3.2 shows the effect of financial transactions on CGNCR.

Table 3.2: Financial transactions: impact on central government net cash requirement<sup>1</sup>

Financial Transactions	£ million					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
i Higher Education: part time maintenance loans	0	0	0	-115	-335	-570
ii Health Education: funding reform	0	0	-230	-620	-990	-1,170
iii Equivalent or Lower Qualification Bar: STEM exemption	0	0	0	*	-5	-5
iv Further Education: expansion of tuition fee loans	0	-80	-125	-200	-200	-185
v Postgraduate Loans: lifting the age cap & widening scope	0	-110	-175	-170	-180	-185
vi Student Loans: repayment threshold freeze	0	0	+30	+90	+200	+360
vii Additional sales of RBS shares	0	0	0	0	0	+5,800
<b>TOTAL POLICY DECISIONS</b>	<b>0</b>	<b>-190</b>	<b>-500</b>	<b>-1,015</b>	<b>-1,510</b>	<b>+4,045</b>

\* Negligible

<sup>1</sup> Costings reflect the OBR's latest economic and fiscal determinants.

## Asset sales

**3.7 UK Asset Resolution Transactions** – In line with its ongoing strategy to wind down the balance sheets of NRAM plc and Bradford & Bingley, UKAR will look to make further asset sales over the course of the Parliament which we expect to total £7.5 billion.

**3.8 Royal Bank of Scotland share sales** – The government will extend its commitment to sell over £25 billion of RBS shares over this Parliament and raise a further £5.8 billion in 2020-21.

**3.9 Royal Mail employee share scheme** – In October 2015, a further 1% gift of Royal Mail shares was given to employees. (4)

## Sovereign Grant

**3.10 Sovereign Grant** – The grant for 2016-17 will be £42.8 million.

## Charities

**3.11 The use of banking fines** – The government has committed £25 million of banking fines over the next 3 years to support military charities and other good causes, including:

- Guide Dogs for Military Veterans £4.7 million – to provide a guide dog and support for life, for each of the 90 blind veterans registered with the charity
- Direct Skeletal Fixation £2 million – to trial a pioneering surgical procedure which has the potential to dramatically improve the quality of life for military amputees
- SkillForce £1.6 million – to engage the hard to reach within the school system, and vulnerable veterans in police custody, using ex-Service mentors
- Care After Combat £1 million – to support veterans within the criminal justice system and on their release, using ex-Service mentors
- Jon Egging Trust £1.5 million – to improve the life chances of vulnerable young people in deprived areas using the skills of serving and veteran military personnel
- Invictus Games 2016 £250,000 – to support our injured and wounded Service Personnel and veterans in competing at the 2016 'Invictus Games' in the USA

- Alabaré Christian Charity £903,000 – to provide sheltered accommodation to vulnerable Service veterans and supporting them to regain their independence
- 14-18 NOW £2.55 million – to allow the extremely popular ‘Wave’ and ‘Weeping Window’ poppy exhibitions to tour to a further 12 locations across the UK
- Service graves £2 million – to allow the Commonwealth War Graves Commission to renovate and then maintain the graves of over 6,000 Servicemen and women
- Victoria Cross Trust £600,000 – to continue the restoration and maintenance of the graves of Servicemen who have been awarded the Victoria Cross
- Mary Seacole Memorial Statue Appeal £240,000 – to facilitate a memorial statue to commemorate Mary Jane Seacole; nurse and heroine of the Crimean War
- Tavistock Square Memorial Trust £50,000 – to facilitate a memorial to remember those who died in the terrorist bombing of the number 30 bus on 7 July 2005
- The Royal Marines Museum £2 million – to facilitate the relocation of the Royal Marines Museum and increase access to its unique collections
- The National Army Museum £1 million – to facilitate a radical transformation of the National Army Museum ready for 21st century audiences
- D-Day Museum Portsmouth £600,000 – to transform and establish the D-Day Museum Portsmouth as the national centre for the commemoration of D-Day
- Bentley Priory Battle of Britain Trust £1 million – to facilitate a learning and access project in the Battle of Britain Museum at the former headquarters of RAF Fighter Command
- Winston Churchill Memorial Trust £1 million – to increase fellowships awarded to remarkable individuals from all backgrounds, ages, ethnicities and professions
- Hooton Park Trust £350,000 – to restore one of the few WWI aerodromes remaining as built and which holds an important place in military aviation heritage
- Great Ormond Street Charity up to £1.5 million – to match funds raised by the Independent and Evening Standard Christmas appeal for one of the world’s leading children’s hospitals, treating the most complex and life-threatening illnesses

## Devolved and local government

**3.12 Assets package** – To encourage local authorities to release surplus assets and invest in making their services more efficient, the government will:

- consult on updating the transparency code, and take further measures to enforce compliance with transparency requirements where necessary
- strengthen Right to Contest for local authority land and property
- give local authorities flexibility to spend capital receipts (excluding Right to Buy receipts) from asset sales on the revenue costs of reform projects, subject to conditions that will be set out alongside the local government settlement in December
- extend the One Public Estate programme with £31 million to support local authorities to design more efficient asset management strategies
- publish new guidance for best practice on property disposals for local authorities by Budget 2016 and provide support to dispose of local authority sites which could be used for housing

**3.13 Enterprise Zones** – The government will expand the Enterprise Zone programme in England with the announcement of 18 new sites across the country and the extension of 8 sites on the current programme. (3)

**3.14 Reform to the funding of temporary accommodation** – The temporary accommodation management fee paid from DWP to local authorities on a per household basis will end from 2017-18. More than equivalent funding will be devolved to local authorities through a new grant to allow them to better manage temporary accommodation pressures. (8)

**3.15 Council tax precept for social care** – A social care ‘precept’ will give local authorities additional flexibility to raise up to £2 billion to provide essential adult social care to the most vulnerable people in society.

**3.16 Council tax flexibility for policing** – The government will provide further flexibility for police forces with the lowest council tax bills to raise income from council tax by £5 rather than 2%. This proposal provides extra flexibility to those forces who have historically kept the police element of their council tax bill low, and could allow them to raise up to an additional £12 million per year.

## Personal tax

### Income Tax and National Insurance contributions

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

**3.18 Taxation of sporting testimonials** – Following the consultation announced at Summer Budget 2015, the government will legislate to simplify the tax treatment of income from sporting testimonials. From 6 April 2017, all income from sporting testimonials and benefit matches for employed sportspersons will be liable to income tax. In addition, an exemption of up to £50,000 will be available for employed sportspersons with income from sporting testimonials that are not contractual or customary. This legislation will apply where the sporting testimonial is granted or awarded on or after 25 November 2015, and only to events that take place after 5 April 2017. Separate legislation will be introduced before 6 April 2017 for the National Insurance treatment of this income which will follow the income tax treatment. (Finance Bill 2016)

**3.19 London Anniversary Games and World Athletics and Paralympics Championships** – The government will exempt non-resident competitors in the 2017 World Athletics and Paralympics Championships and the 2016 London Anniversary Games from income tax on their earnings from the event. 2016 will be the final year such an exemption is granted to the London Anniversary Games as the Olympic torch is passed to Rio de Janeiro.

**3.20 Employment intermediaries and tax relief for travel and subsistence** – As confirmed at Summer Budget 2015, the government will legislate to restrict tax relief for travel and subsistence expenses for workers engaged through an employment intermediary, such as an umbrella company or a personal service company. Following consultation, relief will be restricted for individuals working through personal service companies where the intermediaries legislation applies. This change will take effect from 6 April 2016.

**3.21 Extending averaging for farmers** – Following the consultation announced at March Budget 2015, the averaging period for self-employed farmers will be extended from 2 years to 5 years as of April 2016, with farmers having the option of either averaging period. (Finance Bill 2016)

**3.22 Business Investment Relief** – The government will consult on how to change the Business Investment Relief rules to encourage greater use of the relief to increase investment in UK businesses.

**3.23 Venture capital schemes: changes to eligible investments** – The government announced at Report stage of Finance (No. 2) Act 2015 changes to the excluded activities of the Enterprise Investment Scheme (EIS), Venture Capital Trusts (VCT) and Seed Enterprise Investment Scheme (SEIS). With effect from 30 November 2015, the provision of reserve energy generating capacity and the generation of renewable energy benefiting from other government support by community energy organisations will no longer be qualifying activities. In addition, these activities will not be eligible for Social Investment Tax Relief (SITR) when SITR is enlarged. The government will exclude all remaining energy generation activities from the schemes from 6 April 2016, as well as from the enlarged SITR. The government will also introduce increased flexibility for replacement capital within EIS and VCT, subject to state aids approval. (Finance Bill 2016) (15)

**3.24 Employee share schemes: simplification of the rules** – The government will introduce a number of technical changes to streamline and simplify aspects of the tax rules for tax-advantaged and non-tax-advantaged employee share schemes. These changes will provide more consistency, including putting beyond doubt the tax treatment for internationally mobile employees of certain employment-related securities (ERS) and ERS options. Any charge to tax will arise under the rules that deal with ERS options, rather than earnings. (Finance Bill 2016)

**3.25 Salary sacrifice** – The government remains concerned about the growth of salary sacrifice arrangements and is considering what action, if any, is necessary. The government will gather further evidence, including from employers, on salary sacrifice arrangements to inform its approach.

### **Taxation on savings and pensions**

**3.26 Pensions tax relief consultation** – At Summer Budget 2015, the government launched a consultation on the system of pensions tax relief. The government is considering the responses received and will publish its response at Budget 2016.

**3.27 Dependant Scheme Pensions** – Legislation will be introduced to simplify the test that takes place when a Dependant's Scheme Pension is payable. (Finance Bill 2016)

**3.28 Bridging Pensions** – Following the introduction of a single tier pension from 6 April 2016, legislation will be introduced to enable the pension tax rules on bridging pensions to be aligned with Department for Work and Pensions legislation. (Finance Bill 2016)

**3.29 Automatic enrolment minimum contribution rates** – The government will delay the next two scheduled increases in automatic enrolment minimum contribution rates by 6 months each, to align these changes with the start of the tax year. (29)

**3.30 Secondary market for annuities** – The government will remove the barriers to creating a secondary market for annuities, allowing individuals to sell their annuity income stream. The government will set out further details on this measure, including the framework for the consumer protection package, in its consultation response this December. (Finance Bill 2017)

**3.31 Starting rate of savings tax** – The band of savings income that is subject to the 0% starting rate will be kept at its current level of £5,000 for 2016-17.

**3.32 ISAs: annual subscription limits** – The government will maintain the ISA, Junior ISA and Child Trust Fund annual subscription limits at their current level for 2016-17. The ISA limit will be kept at £15,240. The Junior ISA and Child Trust Fund limits will be kept at £4,080.

**3.33 ISAs: qualifying investments** – The list of qualifying investments for the new Innovative Finance ISA will be extended in Autumn 2016 to include debt securities offered via crowdfunding platforms. The government will continue to explore the case for extending the list to include equity crowdfunding.

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

## Inheritance tax

**3.35 Inheritance tax exemption for compensation and ex-gratia payments to victims of persecution during the World War II era** – The government will legislate Extra Statutory Concession F20, which gives an inheritance tax exemption in respect of certain compensation and ex-gratia payments for World War II claims. The legislation will include payments made under a recently created compensation scheme known as the Child Survivor Fund. The legislation will apply to deaths on or after 1 January 2015. (Finance Bill 2016)

**3.36 Inheritance tax and undrawn pension funds in drawdown pensions** – The government will legislate to ensure a charge to inheritance tax will not arise when a pension scheme member designates funds for drawdown but does not draw all of the funds before death. This will be backdated to apply to deaths on or after 6 April 2011. (Finance Bill 2016)

**3.37 Deeds of variation** – Following the review announced at March Budget 2015, the government will not introduce new restrictions on how deeds of variation can be used for tax purposes but will continue to monitor their use.

## Charities

**3.38 Gift Aid Small Donations Scheme** – As announced on 18 March 2014, the government will review the Gift Aid Small Donations Scheme to ensure that it is operating as effectively as possible. A call for evidence will be published in December 2015.

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

## Welfare

**3.40 Tackling truancy** – The government will recover unpaid truancy penalties from families' Child Benefit, or through the courts where they do not receive Child Benefit.

**3.41 Tax credits** – The rate at which a claimant's award is reduced as each pound of their income exceeds the income threshold (known as the taper rate) will remain at 41% of gross income from April 2016. The level of income at which a claimant's tax credit award begins to be tapered away (known as the income threshold), will remain at £6,420 per year from April 2016. Claimants earning below this amount will retain their maximum award. Consequently the income threshold for Child Tax Credit-only claimants will remain at £16,105 in 2016-17. As announced at Summer Budget 2015, the income rise disregard in tax credits will reduce from £5,000 to £2,500. This is the amount by which a claimant's income can increase in-year compared to their previous year's income before their award is adjusted. (23)

**3.42 Tax-Free Childcare** – The government will lower the upper income limit per parent from £150,000 to £100,000 and increase the minimum income level per parent from the equivalent of 8 hours to 16 hours at the NLW. (28)

### **3.43 Extension of 30 hours free entitlement for working families: tax credit**

**interaction from refinements to the in-work rule** – The 30 hours free childcare offer for working parents of 3 and 4 year olds has been extended to help families maintain childcare arrangements and support the transition back to work at the end of their parental leave or period of ill health. Eligibility has been extended to cases where a parent or their partner (if they have one) is in work and the other parent is disabled or a carer; or where a parent or their partner (if they have one) is taking time away from work on paid sickness or parental leave. This is a net cost to the Exchequer but the cost in DfE DEL is partially offset by lower tax credits expenditure. (28)

## **Universal Credit**

**3.44 Universal Credit rollout schedule** – The government will begin the rollout of the UC Digital Service in 2016, completing by 2021. This brings plans into line with recent assurance from the Major Projects Authority, and the OBR's assumptions. (24)

**3.45 Universal Credit Minimum Income Floor** – The government will uprate the individual threshold in the UC Minimum Income Floor for the self-employed in line with the NLW instead of the NMW. (25)

## **Housing**

**3.46 Temporary absence in Housing Benefit and Pension Credit** – The government will end the payment of Housing Benefit and Pension Credit to claimants to who travel outside of Great Britain for longer than 4 weeks consecutively, from April 2016. (27)

**3.47 Capping Housing Benefit in the social rented sector** – The government will apply the relevant Local Housing Allowance rates as maxima for Housing Benefit paid in the social rented sector, including the Shared Accommodation Rate for single claimants aged under 35 without dependent children. The cap will apply from 1 April 2018 but only to tenancies signed after 1 April 2016. (26)

## **Pensions and Social Care**

**3.48 State Pension** – The government will set the starting rate for a full new State Pension at £155.65 per week, which will take effect in April 2016. The government will increase the basic State Pension by the triple lock for 2016-17, meaning a full basic State Pension will rise to £119.30 a week, an increase of £3.35.

**3.49 Uprating of Pension Credit** – The government confirms that the single rate of the Standard Minimum Guarantee will rise in line with earnings by £4.40 to £155.60 per week, and the couple rate will rise by £6.70 to £237.55 per week. The Savings Credit threshold will rise to £133.82 for a single pensioner and to £212.97 for a couple, which will reduce the single rate of the Savings Credit maximum by £1.75 to £13.07 and the couple rate by £2.68 to £14.75. (30)

**3.50 Delaying the social care 'Dilnot' reforms** – The government has already taken the decision to postpone the introduction of social care reforms, known as the 'Dilnot' reforms, until 2020. Spending Review and Autumn Statement 2015 records the AME impact of this delay and reconfirms the government's commitment to implementing these reforms at a later date. (31)

## **Fraud, error and debt**

**3.51 Consultation on joint claims for benefits and tax credits** – The government is concerned about levels of fraud and error in the benefits and tax credits system where it is not clear whether someone must make a joint, rather than single, claim. It will therefore consult shortly on ways to make the requirement clearer and more objective.

**3.52 Extension of the local authority Fraud and Error Reduction Incentive Scheme (FERIS)** – The government will extend funding to the end of 2017-18 to reward local authorities for reducing fraud and error in Housing Benefit. (22)

**3.53 Transfer of fraud investigation staff to compliance activity** – The government will transfer 200 staff from local fraud investigations to local compliance activities in 2015-16, ready to be fully operational by October 2016. (22)

**3.54 Tax Credit debt collection through the Debt Market Integrator** – Following the successful implementation of the contract to use the private sector to make phone calls and send letters and text messages to collect tax credit debt, the government will contract with the Debt Market Integrator to continue to deliver this service. This will begin in July 2016 following the end of the current contract. (22)

**3.55 Application to Scotland of HMRC's set-off debt collection powers** – The government will legislate to ensure that HMRC's ability to offset and collect debt owed to it against its outgoing payments covers Scotland as well as the rest of the UK, as intended in Finance Act 2008. (Finance Bill 2016)

## Business tax

**3.56 Apprenticeship levy** – The government will introduce the apprenticeship levy in April 2017. It will be set at a rate of 0.5% of an employer's paybill and will be paid through PAYE. Each employer will receive an allowance of £15,000 to offset against their levy payment. This means that the levy will only be paid on any paybill in excess of £3 million. (Finance Bill 2016) (1)

**3.57 Corporation tax: museums and galleries tax relief** – The government will explore with the sector the case for introducing a new tax relief for museums and galleries.

**3.58 Consultation on how to expand corporation tax deductions for contributions to grassroots sport** – The government will launch a consultation at Budget 2016 on how to expand support that can be given to grassroots sport through the corporation tax system.

**3.59 Stamp Duty and Stamp Duty Reserve Tax Deep In The Money Options (DITMOs)** – Shares transferred to a clearance service or depositary receipt issuer as a result of the exercise of an option will now be charged the 1.5% higher rate of stamp duty based on either their market value or the option strike price, whichever is higher. This will prevent avoidance using DITMOs, which are options with a strike price significantly below (for call options) or above (for put options) market value. Share transfers made other than to a clearance service or depositary receipt system as a result of exercising an option will be unaffected. The change will apply to options which are entered into on or after 25 November 2015 and exercised on or after Budget 2016. (Finance Bill 2016) (14)

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

**3.61 Corporation tax: restitution interest** – The government has provided that a special 45% rate of corporation tax on income is to be applied to restitution interest. This measure was legislated for in Finance (No. 2) Act 2015. (21)

**3.62 Change in scope of the UK bank levy** – The government will consult on changing the scope of the bank levy to UK operations from 1 January 2021, a change which was announced in Summer Budget 2015 alongside a commitment to legislate in this Parliament.

## Indirect taxes

**3.63 VAT on sanitary products: equivalent donation for women's charities** – The government has set up a new fund that will make available £15 million a year, equivalent to

the annual VAT raised on sanitary products, to support women's charities over the course of this Parliament, or until EU rules are amended to enable the UK to apply a zero rate of VAT for sanitary products.

**3.64 VAT reduced rate for energy saving materials** – The government will consult on legislation for Finance Bill 2016 to ensure the reduced rate of VAT on energy saving materials is maintained in line with EU law. (Finance Bill 2016)

**3.65 Framework Convention on Tobacco Control (FCTC) Illicit Trade Protocol** – As part of its obligations under the FCTC Illicit Trade Protocol, the government will consult on the introduction of a licensing scheme for tobacco machinery and the possibility of licensing tobacco vendors.

### Transport taxes

**3.66 Company Car Tax diesel supplement** – From April 2016 the 3 percentage point differential between diesel cars and petrol cars will be retained until April 2021. (Finance Bill 2016) (12)

### Energy and environment taxes

**3.67 Climate Change Levy** – Following consultation, a transitional period for electricity suppliers to apply the CCL exemption on renewably sourced electricity generated before 1 August 2015 will end on 31 March 2018. (Finance Bill 2016)

**3.68 Shale Wealth Fund** – The government will establish a Shale Wealth Fund from shale gas revenues which will see up to 10% of the tax revenues from shale gas spent in local areas.

**3.69 Reform of the Landfill Communities Fund** – The value of the Landfill Communities Fund for 2016-17 will be set at £39.3 million, with the cap on contributions by landfill operators amended to 4.2%. £20 million of the additional Landfill Tax revenues from this change will be allocated to the Environment Agency to address waste crime over the next 5 years. This includes the removal of provisions for third party contributions, simplification of record keeping requirements and changes to the scheme's objectives. (10)

### Property taxes

**3.70 Stamp duty land tax: additional properties** – Higher rates of SDLT will be charged on purchases of additional residential properties (above £40,000), such as buy to let properties and second homes, from 1 April 2016. The higher rates will be 3 percentage points above the current SDLT rates. The higher rates will not apply to purchases of caravans, mobile homes or houseboats, or to corporates or funds making significant investments in residential property given the role of this investment in supporting the government's housing agenda. The government will consult on the policy detail, including on whether an exemption for corporates and funds owning more than 15 residential properties is appropriate. The government will use some of the additional tax collected to provide £60 million for communities in England where the impact of second homes is particularly acute. (5)

**3.71 Stamp Duty Land Tax: application to certain authorised property funds** – The government will introduce a seeding relief for Property Authorised Investment Funds (PAIFs) and Co-ownership Authorised Contractual Schemes (CoACSs) and make changes to the SDLT treatment of CoACSs investing in property so that SDLT does not arise on the transactions in units. There will be a defined seeding period of 18 months, a 3 year clawback mechanism and a portfolio test of 100 residential properties and £100 million value or 10 non-residential properties and £100 million value. These changes will take effect from the date Finance Bill 2016 receives Royal Assent. (Finance Bill 2016)

**3.72 Stamp Duty Land Tax: changes to the filing and payment process** – The government will consult in 2016 on changes to the SDLT filing and payment process, including a reduction in the filing and payment window from 30 days to 14 days. These changes will come into effect in 2017-18. (Finance Bill 2017) (6)

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

**3.74 Small Business Rate Relief (SBRR)** – The government will extend the doubling of SBRR for a further year from 1 April 2016. (2)

## Capital Gains Tax

**3.75 Capital Gains Tax (CGT) for non-UK residents disposing of UK residential property** – The government will amend the CGT computations required by non-residents on the disposal of UK residential property by removing with retrospective effect from 6 April 2015 a double charge that occurs in some circumstances and correcting an omission with effect from 25 November 2015. The government will also give HMRC powers to prescribe circumstances when a CGT return is not required by non-residents and will add CGT to the list of taxes that the government may collect on a provisional basis. (Finance Bill 2016)

**3.76 Capital Gains Tax: payment window** – From April 2019, a payment on account of any CGT due on the disposal of residential property will be required to be made within 30 days of the completion of the disposal. This will not affect gains on properties which are not liable for CGT due to Private Residence Relief. The government will publish draft legislation for consultation in 2016. (Finance Bill 2017) (7)

## Avoidance and Evasion

### Tax evasion and compliance

**3.77 A new criminal offence for tax evasion** – The government will introduce a new criminal offence that removes the need to prove intent for the most serious cases of failing to declare offshore income and gains. (Finance Bill 2016)

**3.78 New civil penalties for offshore tax evaders** – The government will increase civil penalties for deliberate offshore tax evasion, including the introduction of a new penalty linked to the value of the asset on which tax was evaded and increased public naming of tax evaders. (Finance Bill 2016)

**3.79 New civil penalties for those who enable offshore evasion** – The government will introduce civil penalties for those who enable offshore tax evasion, including public naming of those who have enabled the evasion. (Finance Bill 2016)

**3.80 A new criminal offence for corporates failing to prevent tax evasion** – The government will introduce a new criminal offence for corporates which fail to prevent their agents from criminally facilitating tax evasion by an individual or entity.

**3.81 An additional requirement to correct past offshore tax non-compliance** – The government will consult on an additional requirement for individuals to correct any past offshore non-compliance with new penalties for failure to do so.

**3.82 Cash and the hidden economy** – HMRC is publishing a call for evidence to seek a better understanding of what implications the trend away from cash has for tax compliance, and in particular evasion and the hidden economy.

## Tax avoidance

**3.83 Serial Avoiders** – The government will introduce tough new measures for those who persistently enter into tax avoidance schemes that are defeated by HMRC. These include a special reporting requirement and a surcharge on those whose latest return is inaccurate due to use of a defeated scheme, the names of such avoiders being published and, for those who persistently abuse reliefs, restrictions on them accessing certain tax reliefs for a period. The government is also widening the Promoters of Tax Avoidance Schemes (POTAS) regime, by bringing in promoters whose schemes are regularly defeated by HMRC. (Finance Bill 2016)

**3.84 General Anti-Abuse Rule (GAAR)** – The government will introduce a new penalty of 60% of tax due to be charged in all cases successfully tackled by the GAAR. The government will also make small changes to the way the GAAR works to improve its ability to tackle marketed avoidance schemes. (Finance Bill 2016) (19)

**3.85 Company distributions** – The government will publish a consultation on the rules concerning company distributions later in the year. The government will also amend the Transactions in Securities rules and introduce a Targeted Anti-Avoidance Rule in order to prevent opportunities for income to be converted to capital in order to gain a tax advantage. (Finance Bill 2016) (18)

**3.86 Capital allowances and leasing** – With effect from 25 November 2015, the government will amend legislation to counter 2 types of avoidance involving capital allowances and leasing. These changes will prevent companies from artificially lowering the disposal value of plant and machinery for capital allowances purposes, and make any payment received for agreeing to take responsibility for tax deductible lease related payments subject to tax as income. (Finance Bill 2016) (16)

**3.87 Disguised remuneration** – The government intends to take action against those who have used or continue to use disguised remuneration schemes and who have not yet paid their fair share of tax. The government will also consider legislating in a future Finance Bill to close down any further new schemes intended to avoid tax on earned income, where necessary, with effect from 25 November 2015.

**3.88 Rules for addressing hybrid mismatch arrangements** – Following consultation, the government will introduce legislation with effect from 1 January 2017 to implement the agreed OECD rules for addressing hybrid mismatch arrangements. The new rules will prevent multinational enterprises avoiding tax through the use of certain cross-border business structures or finance transactions. (Finance Bill 2016)

**3.89 Related Party Rules: partnerships and transfers of intangible assets** – The government will amend the intangible fixed asset rules to clarify the tax treatment on transfers of assets to partnerships. This change has immediate effect. It will ensure that partnerships cannot be used in arrangements that seek to obtain a tax relief for their corporate members in a way that is contrary to the intention of the regime. The government will also consider a review of the intangible assets regime as part of the Business Tax Roadmap. (Finance Bill 2016) (17)

**3.90 Taxation of asset manager's performance based rewards** – The government will introduce legislation to determine when performance awards received by asset managers will be taxed as income or capital gains. An award will be subject to income tax, unless the underlying fund undertakes long term investment activity. (Finance Bill 2016)

**3.91 Tools to encourage voluntary compliance and special measures to tackle the highest risk businesses** – At Summer Budget 2015, the government announced new measures to improve large business tax compliance, with a consultation over the summer to refine the detail of the measures. Following consultation, the government will legislate to introduce:

- a new requirement that large businesses publish their tax strategies as they relate to or affect UK taxation

- a special measures regime to tackle businesses that persistently engage in aggressive tax planning
- a framework for cooperative compliance (Finance Bill 2016)

**3.92 Capital Gains Tax entrepreneurs' relief: contrived structures** – The government will consider bringing forward legislation to amend the changes made by Finance Act 2015 to entrepreneurs' relief, in order to support businesses by ensuring that the relief is available on certain genuine commercial transactions.

## Tax administration and simplification

### Tax administration

**3.93 Making tax digital** – The government will invest £1.3 billion to transform HMRC into one of the most digitally advanced tax administrations in the world. Most businesses, self-employed people and landlords will be required to keep track of their tax affairs digitally and update HMRC at least quarterly via their digital tax account, reducing errors through record keeping. HMRC will ensure the availability of free apps and software that link securely to HMRC systems and provide support to those who need help using digital technology. This will not apply to individuals in employment, or pensioners, unless they have secondary incomes of more than £10,000 per year. The government will publish its plans to transform the tax system shortly and will consult on the details in 2016. (20)

**3.94 HMRC's customer cost reduction target** – HMRC will introduce a strengthened target to reduce the annual cost to business of tax administration by £400 million by the end of this Spending Review period.

**3.95 Amendments to Schedule 3 of the Customs and Excise Management Act** – The government will publish draft amendments to the Customs and Excise Management Act 1979 to clarify existing provisions concerning the seizure and detention of goods. (Finance Bill 2016)

**3.96 Clarification of time limits for self-assessment** – The government will publish draft legislation clarifying the time allowed for making a self-assessment. It will make clear that the time limit is 4 years from the end of the relevant tax year. (Finance Bill 2016)

### Tax simplification

**3.97 Office of Tax Simplification (OTS) review of employment status** – The government has responded to the final report of the OTS review of employment status and is taking forward the majority of recommendations.

**3.98 Taxation of accommodation benefits** – Following recommendations from the 2014 OTS report on simplifying the administration of employee benefits and expenses, the government will publish a call for evidence on the current tax treatment of employer provided living accommodation.

**3.99 Simple assessment** – The government will publish draft legislation that will enable a new, simpler process for paying tax. This will be used for taxpayers in self-assessment who have simple tax affairs where HMRC already holds all the data it needs to calculate the tax liability, and where existing payment processes are not available. Taxpayers will be sent a calculation which will be a legally enforceable demand for payment, and taxpayers will be able to challenge and appeal these calculations. This process will come into effect in the 2016-17 tax year. (Finance Bill 2016)

**3.100 'On or Before' Reporting Obligation Review** – The government has decided that the 2 year temporary relaxation, allowing existing micro-employers using Real-Time PAYE to report all payments they make in a tax month on or before the last payday in the tax month rather than on or before each and every payday, will end as planned on 5 April 2016. This will align

the treatment for existing micro-employers with all other employers, and follows a review the government committed to undertake at Autumn Statement 2014, as recommended by the OTS.

## Financial Services

### Banking

**3.101 Sharing Small and Medium Enterprise (SME) credit data** – The government plans to designate Experian, Equifax and CreditSafe under the Small and Medium Sized Business (Credit Information) Regulations 2015. These credit reference agencies will receive SME credit data from designated banks and will be required to give finance providers equal access to this information.

**3.102 CML-Which? report on mortgage fee transparency** – The government welcomes the industry commitments set out in the Council of Mortgage Lenders and Which? report on mortgage fee transparency published today. This will make it easier for borrowers to understand and choose the best mortgage deals.

### Insurance

**3.103 Motor insurance** – The government will bring forward measures to reduce the excessive costs arising from unnecessary whiplash claims, and expects average savings of £40 to £50 per motor insurance policy to be passed onto customers, including by:

- removing the right to general damages for minor soft tissue injuries<sup>1</sup>
- removing legal costs by transferring personal injury claims of up to £5,000 to the small claims court (13)

## Supply side reform of the economy

### Infrastructure

**3.104 Extension of the UK Guarantees Scheme** – The government will extend the availability of the £40 billion UK Guarantees Scheme to March 2021, to continue to help infrastructure projects raise finance from banks and the capital markets.

### Housing

**3.105 Local plans** – The government will bring forward proposals for a delivery test on local authorities, to ensure delivery against the homes set out in local plans within a reasonable timeframe.

**3.106 Neighbourhood plans** – The government will ensure that local communities can allocate land for housing through neighbourhood plans, even if that land is not allocated in the local plan.

**3.107 Starter Homes** – The government will amend planning policy to ensure the release of unused and previously undeveloped commercial, retail and industrial land for Starter Homes, and support regeneration of previously developed, brownfield sites in the greenbelt, by allowing them to be developed in the same way as brownfield sites elsewhere, providing it delivers Starter Homes. This will be subject to local consultation, such as through neighbourhood plans.

**3.108 SME house builders** – The government will halve the length of the planning guarantee and amend planning policy to support small sites, while ensuring protection for existing gardens.

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<sup>1</sup> Claimants will still be entitled to claim for 'special damages', including treatment for any injury if required and any loss of earnings.

**3.109 Section 106** – The government will bring forward proposals for a more standardised approach to viability assessments, and extend the ability to appeal against unviable section 106 agreements to 2018.

**3.110 Quality of decision making** – To support decision-making in line with local plans and the principles in the National Planning Policy Framework, the government will bring forward proposals to strengthen the performance regime, by lowering the threshold for the quality of decisions to 10% of all major decisions overturned on appeal. Wider circumstances, such as the status of the local plan and whether appeals relate to this, will be taken into account.

**3.111 Planning conditions** – The government will review the operation of the deemed discharge of planning conditions.

**3.112 Right to Buy pilot** – The government will launch a pilot of Right to Buy with five housing associations, to inform the design of the final scheme.

## Energy and environment

**3.113 Warm Home Discount** – The government will extend the Warm Home Discount to 2020-21 at current levels of £320 million a year, rising with inflation (CPI).

**3.114 Domestic energy efficiency supplier obligation** – The government will implement a domestic energy efficiency supplier obligation for 5 years from April 2017, with a value of £640 million per year, rising with inflation (CPI).

**3.115 Renewable Heat Incentive** – The government will increase funding for the Renewable Heat Incentive to £1.15 billion by 2020-21, while reforming the scheme to deliver better value for money and strengthen cost control. (9)

**3.116 Flood Reinsurance Scheme** – The Flood Reinsurance Scheme has now been designated and will be consolidated into Defra's accounts. The scheme will ensure affordable home insurance for those at high flood risk from April 2016, subject to approval from financial regulators. (11)

## Education and skills

**3.117 Further education loans** – The government will extend further education tuition loans to include those aged 19-23 studying for a Level 3 or 4 qualification, and for those aged 19 and over studying for a Level 5 or 6 qualification.

**3.118 Equivalent or Lower Qualification bar** – The government will enable people to retrain in Science, Technology, Engineering and Mathematics by removing the restriction on accessing tuition fee loans for a second degree in these subjects from 2017-18.

**3.119 Part Time Maintenance Loans** – The government will introduce a generous new system of maintenance support for higher education students wishing to study part time by 2018-19 and will consult on the detail.

**3.120 Repayment threshold** – The government will freeze the student loan repayment threshold for Plan 2 graduates for 5 years from April 2016.

**3.121 Postgraduate Taught Masters Loans** – The government will lift the age cap for new postgraduate loans, so they are available to all those under 60, and reduce the repayment rate from 9% to 6% of income over £21,000. Loans will be introduced from 2016-17.

**3.122 Health education reform** – Students studying nursing, midwifery and allied health subjects from September 2017 will be moved on to the standard student support system, with the details subject to consultation. The cap on the number of student places universities can offer for these subjects will be removed.

# A

## Statistical Annex

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**A.1** This annex provides further details of the projections of public expenditure that result from decisions made in the Spending Review and Autumn Statement.

**A.2** All real terms numbers included in this document have been calculated on the basis of whole economy inflation, as measured by the Gross Domestic Product (GDP) deflators used by the Office for Budget Responsibility (OBR) in their November forecast. These are set out in their 'Economic and fiscal outlook' November 2015 document.

**A.3** All projections for Annually Managed Expenditure (AME) are based on the OBR's November forecast, adjusted for AME measures in the Spending Review and Autumn Statement.

**A.4** Some numbers in this document may not sum due to rounding.

**A.5** Table 1.A sets out provisional RDEL settlements including depreciation. Depreciation measures the reduction in value of assets over the course of a year. Departments calculate depreciation for RDEL budgets according to International Financial Reporting Standards (IFRS). Formal depreciation budgets for departments will be set out at Main Estimates 2016.

Table 1.A: Resource DEL including depreciation

	£ billion					
	Baseline <sup>3</sup>		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>4</sup>
<b>Resource DEL including depreciation<sup>1,2</sup></b>						
Defence	35.7	36.3	37.0	37.7	38.5	39.5
Single Intelligence Account	2.2	2.3	2.4	2.6	2.7	2.8
Home Office	10.6	10.9	10.9	10.8	10.8	*
Foreign and Commonwealth Office	1.1	1.2	1.2	1.2	1.2	*
International Development	8.5	9.1	9.3	10.8	11.1	*
Health (inc. NHS)	112.9	117.0	120.1	122.7	125.5	129.6
Work and Pensions	6.0	6.2	6.4	6.1	5.6	*
Education	54.8	55.7	56.7	57.6	58.4	*
Business, Innovation and Skills <sup>5</sup>	17.6	18.1	17.0	16.5	16.2	*
Transport	3.9	3.4	3.4	3.5	3.1	*
Energy and Climate Change	1.0	0.9	1.0	1.0	0.9	*
Culture, Media and Sport	1.3	1.4	1.4	1.4	1.3	*
DCLG Communities	1.5	1.4	1.4	1.3	1.2	*
DCLG Local Government	11.5	9.6	7.4	6.1	5.4	*
Scotland	26.9	27.1	27.3	27.4	27.5	*
Wales	13.5	13.7	13.8	13.8	13.9	*
Northern Ireland	10.2	10.3	10.4	10.4	10.4	*
Justice	6.8	7.1	6.9	6.4	6.2	*
Law Officers' Departments	0.5	0.5	0.5	0.5	0.5	*
Environment, Food and Rural Affairs	1.7	1.9	1.8	1.7	1.6	*
HM Revenue and Customs	3.6	3.8	3.7	3.4	3.2	*
HM Treasury	0.2	0.2	0.2	0.2	0.1	*
Cabinet Office	0.4	0.6	0.6	0.6	0.6	*
Small and Independent Bodies	1.6	1.6	1.6	1.6	1.6	*
Reserve	3.5	3.5	3.4	3.5	4.1	*
Adjustment for non-baselined funding	0.4	–	–	–	–	*
<b>Total Resource DEL including depreciation plans</b>	<b>338.0</b>	<b>343.7</b>	<b>345.8</b>	<b>348.6</b>	<b>351.7</b>	<b>*</b>

<sup>1</sup> Depreciation in Resource DEL is drawn from departmental resource accounts and follows International Financial Reporting Standards. This currently differs from depreciation estimates in the National Accounts, which is used in the calculation of Public Sector Current Expenditure (PSCE) by the Office for National Statistics and Office for Budget Responsibility.

<sup>2</sup> For the purposes of this Spending Review, depreciation is held at the same cash value as in 2015-16. Depreciation budgets will be agreed with departments in time for Main Estimates 2016-17.

<sup>3</sup> As at all Spending Reviews, baselines exclude one-off and time-limited expenditure.

<sup>4</sup> 2020-21 departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

<sup>5</sup> Figures for BIS include the Resource and Budgeting charge for student loans, which is £4.4 billion in 2015-16.

**A.6** Table 1.B shows departmental administration budgets within RDEL. Administration budgets limit expenditure on running costs of central government which do not directly support front line public services, for example, business support services, the provision of policy advice, accommodation and office services. These represent limits within the overall RDEL settlements set out elsewhere in this document, rather than additional spending.

Table 1.B: Administration budgets

	£ million						Per cent
	Baseline <sup>1</sup>		Plans				Cumulative
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>2</sup>	real growth
<b>Administration budgets<sup>3,4</sup></b>							
Defence	1,520	1,463	1,498	1,430	1,482	1,459	-9.4
Single Intelligence Account	61	72	74	75	76	77	+16
Home Office	400	388	372	343	302	*	-30
Foreign and Commonwealth Office	163	163	163	163	163	*	-7.1
International Development	95	95	96	97	98	*	-4.2
Health (inc. NHS)	2,706	2,608	2,518	2,433	2,354	2,354	-19
Work and Pensions	860	800	800	740	720	*	-22
Education	305	332	328	310	300	*	-8.6
Business, Innovation and Skills	515	502	486	472	458	*	-17
Transport	268	265	261	258	255	*	-12
Energy and Climate Change	175	168	164	162	160	*	-15
Culture, Media and Sport	141	151	146	143	141	*	-6.9
DCLG Communities	294	292	251	238	223	*	-30
Justice	516	518	516	353	278	*	-50
Law Officers' Departments	45	45	45	45	45	*	-7.1
Environment, Food and Rural Affairs	435	444	387	359	346	*	-26
HM Revenue and Customs	763	847	800	790	784	*	-4.5
HM Treasury	159	145	138	131	124	*	-28
Cabinet Office	141	145	119	112	112	*	-26
Small departments	290	275	264	263	252	*	-19
<b>Total administration budgets</b>	<b>9,851</b>	<b>9,718</b>	<b>9,426</b>	<b>8,917</b>	<b>8,673</b>	<b>*</b>	<b>-18</b>

<sup>1</sup> As at all Spending Reviews, baselines exclude one-off and time-limited expenditure. Cumulative real growth is calculated to 2019-20 from the 2015-16 baseline.

<sup>2</sup> 2020-21 departmental budgets have only been set for some departments. For the rest, these budgets will be set in full at the next Spending Review.

<sup>3</sup> DCLG Local Government DEL and the devolved administrations do not have administration budgets.

<sup>4</sup> Regulators, independent bodies and public corporations have been excluded because they are excluded from the administration budget regime.



# B

## Welfare cap

**B.1** The OBR's assessment of the welfare cap is set out in Table 1.5.

**B.2** 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, including where a new welfare cap level and/or margin are being set.

Table B1: Benefits and tax credits in scope of the welfare cap

In scope	Not in scope
Attendance Allowance	Benefits paid from DEL <sup>2</sup>
Bereavement benefits	Jobseeker's Allowance and its passported Housing Benefit
Carer's Allowance	State Pension (basic and additional)
Child Benefit <sup>1</sup>	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	

<sup>1</sup> Includes Guardian's Allowance.

<sup>2</sup> These payments are subject to firm spending control through the usual DEL process.





# Financing

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**C.1** This annex sets out revisions to the government's financing plans for 2015-16, which were previously updated on 8 July 2015. Further details of the revised remit for 2015-16, including progress against the remit to date, can be found on the Debt Management Office's (DMO) website at [www.dmo.gov.uk](http://www.dmo.gov.uk). The government's debt management framework remains as set out in the Debt and reserves management report 2015-16.

## Financing arithmetic

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

**C.3** As set out in Chapter 4 of the Office for Budget Responsibility's (OBR) November 2015 'Economic and fiscal outlook' (EFO), the forecast for the 2015-16 central government net cash requirement (excluding NRAM plc, Bradford and Bingley and Network Rail) (CGNCR (ex NRAM, B&B and NR)) is £75.5 billion. This measure is used in the financing arithmetic as it reflects the forecast cash requirement of the Exchequer. The net financing requirement (NFR) comprises the CGNCR (ex NRAM, B&B and NR) plus any financing for gilt redemptions, planned financing for the reserves and other adjustments, less the net contribution to financing from National Savings and Investments (NS&I) and any other in-year contributions to financing.

**C.4** The NFR for 2015-16 is projected to be £128.4 billion, an increase of £4.5 billion to the figure forecast in July 2015. This change reflects:

- an upward revision to the CGNCR forecast of £3.8 billion to £75.5 billion
- a small downward revision to the forecast net contribution to financing from NS&I of £0.7 billion to £9.3 billion

**C.5** The increase to the NFR will be accommodated by a change in the planned end year stock of Treasury bills. The planned end March 2016 Treasury bill stock is rising by £4.5 billion to £66.0 billion.

**C.6** The DMO has flexibility to vary the planned Treasury bill stock by a maximum of £5 billion before financial year end, relative to these plans. This can be used to offset any anticipated net surplus or deficit for the Exchequer. **Effective from 2015-16, this flexibility can be extended into the following financial year.**

## Gilt issuance by maturity, type and method

**C.7** Auctions will remain the government's primary method of gilt issuance. In line with parameters set in July 2015 it is anticipated that in 2015-16 £99.2 billion (77.9% of total issuance) will be issued by auction and a minimum of £25.2 billion (19.8% of total issuance) will be issued by syndication. £1.0 billion (0.8% of total issuance) has to-date been issued by mini-tender. In addition £2.0 billion (1.5% of total issuance) remains outstanding from an initially unallocated portion of supplementary issuance of £4.0 billion, to be delivered via syndication or mini-tender.

**C.8** The maturity skew of gilt issuance by auction and syndication was previously set out in July 2015. This skew will remain broadly unchanged as set out in Table C.1.

Table C.1: Financing arithmetic in 2015-16

£ billion	Summer Budget 2015-16	Autumn Statement 2015-16
<b>CGNCR (ex NRAM, B&amp;B and NR)</b>	71.6	75.5
Gilt redemptions	70.2	70.2
Planned financing for the reserves	5.3	5.3
Financing adjustment carried forward from previous financial years	-13.1	-13.1
<b>Gross financing requirement</b>	134.1	137.9
<i>less:</i>		
Contribution from National Savings and Investments	10	9.3
Other financing <sup>1</sup>	0.2	0.2
<b>Net financing requirement (NFR) for Debt Management Office (DMO)</b>	123.9	128.4
Financed by:		
<b>1. Debt issuance by DMO</b>		
<b>a) Treasury bills (planned change in stock issued at tenders)</b>	-3.5	1.0
<b>b) Gilt sales</b>	127.4	127.4
<i>of which:</i>		
– Short conventional	32.3	32.3
– Medium conventional	25.4	25.4
– Long conventional	36.8	37.0
– Index-linked	30.2	30.7
– Unallocated supplementary sales	2.7	2.0
<b>2. Planned change in the level of Ways and Means</b>	0	0.0
<b>Total financing</b>	123.9	128.4
<b>Short-term debt/cash levels at end of financial year</b>		
End year Treasury bill stock via tenders (in market hands) <sup>2</sup>	61.5	66.0
Ways and Means	0.4	0.4
DMO net cash position	0.5	0.5

Figures in this Annex may not sum due to rounding.

<sup>1</sup> Prior to publication of the end year outturn in April each year, this financing item will only comprise estimated revenue from coinage.

<sup>2</sup> The DMO has operational flexibility to vary the financial year end stock by a maximum of £5 billion relative to the planning assumption.

## Illustrative future gross financing requirement

**C.9** Table C.2 sets out the updated illustrative gross financing requirement for the next 5 years, using the OBR's November 2015 forecast for the CGNCR (ex NRAM, B&B and NR), current planned gilt redemptions, and planned financing for the reserves.

Table C.2: Illustrative gross financing requirement

£ billion	2016-17	2017-18	2018-19	2019-20	2020-21
CGNCR (ex NRAM, B&B and NR) projections	64	32	13	1	7
Gilt redemptions	70	79	67	93	74
Planned financing for the reserves	6	6	6	6	0
<b>Illustrative gross financing requirement</b>	140	117	86	100	81

Figures in this Annex may not sum due to rounding.

# D

## OBR's Economic and fiscal outlook: selected tables

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**D.1** The Office for Budget Responsibility (OBR) has published its November 2015 'Economic and fiscal outlook' alongside Spending Review and Autumn Statement 2015. 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 D.1: Detailed summary of forecast

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2014	2015	2016	2017	2018	2019	2020
<b>UK economy</b>							
Gross domestic product (GDP)	2.9	2.4	2.4	2.5	2.4	2.3	2.3
GDP level (2014=100)	100.0	102.4	104.8	107.4	110.0	112.6	115.1
Nominal GDP	4.7	3.6	4.0	4.4	4.3	4.4	4.5
Output gap (per cent of potential output)	-1.0	-0.7	-0.4	-0.1	0.0	0.0	0.0
<b>Expenditure components of GDP</b>							
Domestic demand	3.2	2.3	2.6	2.5	2.4	2.3	2.3
Household consumption <sup>1</sup>	2.6	2.9	2.6	2.3	2.3	2.1	1.9
General government consumption	1.9	1.7	0.4	0.6	0.5	0.5	1.1
Fixed investment	7.5	4.1	5.4	5.1	4.7	5.0	4.7
Business	4.6	6.1	7.4	7.1	7.0	6.6	4.5
General government <sup>2</sup>	7.6	3.0	0.8	0.6	-1.6	1.7	9.2
Private dwellings <sup>2</sup>	14.2	0.3	3.8	3.4	3.1	3.1	3.0
Change in inventories <sup>3</sup>	0.2	-0.9	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	1.8	3.4	3.4	3.5	3.6	3.6	3.6
Imports of goods and services	2.8	2.8	3.9	3.4	3.5	3.5	3.5
<b>Balance of payments current account</b>							
Per cent of GDP	-5.1	-4.2	-3.0	-2.4	-2.4	-2.2	-2.1
<b>Inflation</b>							
CPI	1.5	0.1	1.0	1.8	1.9	2.0	2.0
RPI	2.4	1.0	2.0	2.9	3.2	3.2	3.2
GDP deflator at market prices	1.7	1.2	1.6	1.8	1.9	2.0	2.2
<b>Labour market</b>							
Employment (millions)	30.7	31.1	31.5	31.7	31.9	32.0	32.2
Productivity per hour	0.3	1.1	1.5	1.9	2.2	2.2	2.2
Wages and salaries	3.1	4.4	4.5	4.5	4.2	4.1	4.3
Average earnings <sup>4</sup>	1.5	2.6	3.4	3.7	3.6	3.7	3.9
LFS unemployment (% rate)	6.2	5.5	5.2	5.2	5.3	5.4	5.4
Claimant count (millions)	1.04	0.80	0.77	0.82	0.86	0.87	0.88
<b>Household sector</b>							
Real household disposable income	-0.2	3.4	2.5	2.1	1.7	1.6	1.8
Saving ratio (level, per cent)	4.9	4.1	4.2	4.4	4.4	4.5	4.7
House prices	9.9	6.2	4.8	4.7	5.3	5.0	4.3
<b>World economy</b>							
World GDP at purchasing power parity	3.4	3.1	3.5	3.8	3.9	3.9	3.9
Euro area GDP	0.9	1.5	1.6	1.6	1.6	1.6	1.6
World trade in goods and services	3.3	3.0	3.5	3.9	4.3	4.4	4.4
UK export markets <sup>5</sup>	3.8	4.1	3.6	4.1	4.5	4.5	4.5

<sup>1</sup> Includes households and non-profit institutions serving households.

<sup>2</sup> Includes transfer costs of non-produced assets.

<sup>3</sup> Contribution to GDP growth, percentage points.

<sup>4</sup> Wages and salaries divided by employees.

<sup>5</sup> Other countries' imports of goods and services weighted according to the importance of those countries in the UK's total exports.

Table D.2: Fiscal aggregates

	Per cent of GDP						
	Estimate 2014-15	Forecast					
		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Receipts and expenditure</b>							
Public sector current receipts (a)	35.8	35.8	36.5	36.9	36.9	36.9	37.1
Total managed expenditure (b)	40.9	39.7	39.1	38.1	37.2	36.5	36.4
<i>of which:</i>							
Public sector current expenditure (c)	36.8	35.9	35.2	34.4	33.6	33.0	32.6
Public sector net investment (d)	2.0	1.8	1.8	1.6	1.4	1.4	1.8
Depreciation (e)	2.1	2.1	2.1	2.1	2.1	2.1	2.1
<b>Deficit</b>							
Current budget deficit (c+e-a)	3.1	2.1	0.7	-0.4	-1.2	-1.9	-2.4
Cyclically-adjusted deficit on current budget	2.4	1.6	0.5	-0.5	-1.2	-1.9	-2.4
Cyclically-adjusted net borrowing	4.4	3.4	2.3	1.1	0.2	-0.5	-0.6
Primary balance	-3.5	-2.2	-0.6	0.7	1.7	2.3	2.4
Cyclically-adjusted primary balance	-2.7	-1.7	-0.4	0.8	1.7	2.3	2.4
<b>Fiscal mandate and supplementary target</b>							
Public sector net borrowing (b-a)	5.2	3.9	2.5	1.2	0.2	-0.5	-0.6
Public sector net debt <sup>1</sup>	83.1	82.5	81.7	79.9	77.3	74.3	71.3
<b>Financing</b>							
Central government net cash requirement	4.6	3.2	3.0	1.6	0.5	0.0	0.3
Public sector net cash requirement	4.0	3.2	3.0	1.6	0.4	-0.1	0.2
<b>Stability and Growth Pact</b>							
Treaty deficit <sup>2</sup>	5.1	3.9	2.5	1.3	0.3	-0.3	-0.6
Cyclically-adjusted Treaty deficit	4.3	3.5	2.3	1.2	0.3	-0.3	-0.6
Treaty debt ratio <sup>3</sup>	87.5	87.1	86.5	84.8	82.2	79.2	76.0
<b>£ billion</b>							
Public sector net borrowing	94.7	73.5	49.9	24.8	4.6	-10.1	-14.7
Current budget deficit	57.4	39.9	14.2	-8.6	-26.0	-42.3	-56.0
Cyclically-adjusted net borrowing	80.2	64.2	44.7	22.8	4.2	-10.2	-14.7
Cyclically-adjusted deficit on current budget	43.0	30.6	8.9	-10.6	-26.4	-42.4	-56.0
Public sector net debt	1546	1599	1652	1685	1702	1708	1715
Memo: Output gap (per cent of GDP)	-0.8	-0.7	-0.3	-0.1	0.0	0.0	0.0

<sup>1</sup> Debt at end March; GDP centred on end March.

<sup>2</sup> General government net borrowing on a Maastricht basis.

<sup>3</sup> General government gross debt on a Maastricht basis.

Table D.3: Changes in public sector net debt since July

	Per cent of GDP						
	Estimate		Forecast				
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July forecast	80.8	80.3	79.1	77.2	74.7	71.5	68.5
Housing association reclassification							
Per cent of GDP	3.2	3.3	3.4	3.3	3.3	3.2	3.1
£ billion	59	64	67	69	71	72	74
July forecast restated to include HAs	84.0	83.6	82.5	80.6	78.0	74.7	71.6
<b>Change</b>	<b>-0.9</b>	<b>-1.2</b>	<b>-0.8</b>	<b>-0.7</b>	<b>-0.7</b>	<b>-0.4</b>	<b>-0.3</b>
<i>of which:</i>							
Change in nominal GDP <sup>1</sup>	-1.0	-1.3	-1.3	-1.3	-1.3	-1.2	-0.9
Change in cash level of net debt	0.0	0.2	0.5	0.6	0.5	0.8	0.6
November forecast	83.1	82.5	81.7	79.9	77.3	74.3	71.3
	<b>£ billion</b>						
July forecast restated to include HAs	1545	1596	1643	1672	1690	1691	1700
November forecast	1546	1599	1652	1685	1702	1708	1715
<b>Change in cash level of net debt</b>	<b>1</b>	<b>4</b>	<b>10</b>	<b>12</b>	<b>12</b>	<b>18</b>	<b>14</b>
<i>of which:</i>							
Borrowing	1	0	4	2	-2	-3	-8
APF gilt valuation effect	0	0	4	8	12	17	18
UKAR and other asset sales	0	4	1	1	0	0	-5
Gilt premia	0	-2	1	-1	-1	0	-1
Lending	0	-1	0	1	1	3	6
CGNCR adjustment	0	1	1	2	2	3	3
Other factors	0	2	-1	0	-1	-2	0

<sup>1</sup> Non-seasonally-adjusted GDP centred end-March.

Table D.4: Public sector net borrowing since July

	Per cent of GDP						
	Estimate		Forecast				
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July forecast	89.2	69.5	43.1	24.3	6.4	-10.0	-11.6
<b>Housing associations reclassification</b>	<b>4.5</b>	<b>4.6</b>	<b>3.5</b>	<b>2.3</b>	<b>1.8</b>	<b>1.4</b>	<b>1.6</b>
July forecast restated to include HAs	93.7	74.1	46.7	26.5	8.2	-8.5	-10.0
<b>Total forecast changes</b>	<b>0.9</b>	<b>-0.5</b>	<b>-2.9</b>	<b>-7.9</b>	<b>-8.0</b>	<b>-3.8</b>	<b>-4.4</b>
<i>of which:</i>							
Receipts	-1.5	-2.5	-4.1	-6.3	-5.4	-2.8	-2.8
AME spending	2.4	2.1	1.4	-1.4	-2.3	-0.8	-1.4
Revisions to DEL spending	0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
November forecast pre-policy decisions	94.7	73.6	43.8	18.6	0.2	-12.3	-14.4
<b>Total effect of Government decisions</b>		<b>-0.1</b>	<b>6.2</b>	<b>6.2</b>	<b>4.4</b>	<b>2.2</b>	<b>-0.3</b>
<i>of which:</i>							
Scorecard receipts measures		-0.3	-0.6	-4.5	-4.6	-5.5	-5.3
Scorecard AME spending measures		0.0	2.6	1.7	0.3	-0.7	-1.1
Non-scorecard measures		0.0	-0.4	0.1	0.5	0.5	1.2
Changes to RDEL spending		0.3	2.3	6.5	9.3	8.3	-3.6
Changes to CDEL spending		-0.1	2.9	3.3	-0.4	-0.3	6.4
Indirect effect of Government decisions		0.0	-0.6	-0.9	-0.7	-0.1	2.0
November forecast	94.7	73.5	49.9	24.8	4.6	-10.1	-14.7
<b>Change on a like-for-like basis</b>	<b>0.9</b>	<b>-0.6</b>	<b>3.3</b>	<b>-1.7</b>	<b>-3.6</b>	<b>-1.6</b>	<b>-4.7</b>
<i>Memo: November forecast excluding housing association reclassification</i>	90.1	68.9	46.8	22.4	2.2	-12.1	-17.6

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 D.5: Total managed expenditure

	£ billion						
	Estimate			Forecast			
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Public sector current expenditure (PSCE)</b>							
<b>PSCE in RDEL</b>	<b>317.6</b>	<b>315.4</b>	<b>321.1</b>	<b>323.2</b>	<b>325.5</b>	<b>328.6</b>	<b>341.5</b>
<b>PSCE in AME</b>	<b>355.7</b>	<b>366.9</b>	<b>374.9</b>	<b>387.5</b>	<b>400.0</b>	<b>413.4</b>	<b>425.5</b>
<i>of which:</i>							
Welfare spending	213.9	217.2	217.8	219.8	221.5	224.1	229.4
<i>of which:</i>							
Inside welfare cap	119.3	120.9	119.2	117.7	115.9	115.3	117.1
Outside welfare cap	94.7	96.3	98.6	102.0	105.6	108.8	112.3
Company and other tax credits	2.1	2.4	2.6	2.7	2.8	2.8	2.9
Net public service pension payments	12.3	11.4	11.5	12.7	14.3	15.7	16.7
National lottery current grants	1.4	1.4	1.4	1.4	1.5	1.5	1.5
BBC current expenditure	3.8	3.8	3.8	3.8	3.7	3.6	3.7
Network Rail other current expenditure <sup>1</sup>	1.1	0.8	0.7	0.4	-0.1	-0.1	-0.1
Other PSCE items in departmental AME	1.0	1.2	1.0	1.0	0.9	0.9	0.9
Expenditure transfers to EU institutions	10.4	11.7	10.7	9.7	10.9	11.4	11.7
Locally financed current expenditure	36.2	39.8	40.3	43.4	45.6	48.0	49.9
Central government gross debt interest	45.2	46.5	51.0	54.2	55.7	57.3	56.6
Reductions in debt interest due to APF	-12.4	-11.7	-11.5	-10.6	-9.3	-8.3	-7.6
Public corporations debt interest	2.5	3.2	3.3	3.6	3.8	4.0	4.2
<i>of which: housing associations</i>	2.7	2.9	3.0	3.2	3.4	3.6	3.7
General government depreciation	28.5	29.6	31.2	32.8	34.4	36.0	37.8
Current VAT refunds	11.5	11.9	12.1	12.2	12.3	12.4	12.8
R&D expenditure	-7.2	-7.4	-7.6	-7.6	-7.7	-7.7	-8.0
Single use military expenditure	0.3	0.2	0.2	0.2	0.2	0.3	0.3
Environmental levies	3.2	5.9	7.3	8.8	10.6	12.7	13.8
Local authority imputed pensions	1.8	1.8	1.9	2.1	2.2	2.3	2.4
Other National Accounts adjustments	0.1	-2.9	-3.0	-3.1	-3.2	-3.3	-3.5
<b>Total public sector current expenditure</b>	<b>673.3</b>	<b>682.3</b>	<b>696.0</b>	<b>710.7</b>	<b>725.5</b>	<b>742.0</b>	<b>767.0</b>
<b>Public sector gross investment (PSGI)</b>							
<b>PSGI in CDEL</b>	<b>37.3</b>	<b>35.8</b>	<b>39.0</b>	<b>40.1</b>	<b>41.6</b>	<b>44.0</b>	<b>52.8</b>
<b>PSGI in AME</b>	<b>38.4</b>	<b>37.6</b>	<b>38.4</b>	<b>36.6</b>	<b>34.1</b>	<b>35.0</b>	<b>37.4</b>
<i>of which:</i>							
National lottery capital grants	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Network Rail capital expenditure	6.2	6.8	7.4	5.6	4.3	5.0	5.3
Other PSGI items in departmental AME	0.2	0.2	1.4	1.8	2.5	2.9	3.2
Locally financed capital expenditure	6.9	6.5	7.1	7.5	5.9	6.2	6.1
Public corporations capital expenditure	16.0	15.7	14.4	13.6	12.9	12.1	13.5
<i>of which: housing associations</i>	8.3	8.2	6.5	5.7	5.3	4.5	5.7
R&D expenditure	7.2	7.4	7.6	7.6	7.7	7.7	8.0
Other National Accounts adjustments	1.5	0.3	0.1	0.0	0.3	0.5	0.7
<b>Total public sector gross investment</b>	<b>75.7</b>	<b>73.4</b>	<b>77.4</b>	<b>76.7</b>	<b>75.7</b>	<b>79.0</b>	<b>90.2</b>
<i>Less public sector depreciation</i>	-38.5	-39.8	-41.6	-43.4	-45.0	-46.8	-48.9
<b>Public sector net investment</b>	<b>37.2</b>	<b>33.6</b>	<b>35.8</b>	<b>33.4</b>	<b>30.6</b>	<b>32.2</b>	<b>41.3</b>
<b>Total managed expenditure</b>	<b>749.0</b>	<b>755.7</b>	<b>773.3</b>	<b>787.5</b>	<b>801.2</b>	<b>821.0</b>	<b>857.2</b>

<sup>1</sup> Other than debt interest and depreciation, which are included in totals shown separately in this table.

Table D.6: Current receipts

	£ billion						
	Estimate			Forecast			
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Income tax (gross of tax credits) <sup>1</sup>	163.7	171.8	186.9	195.1	208.2	219.8	233.5
<i>of which: Pay as you earn</i>	140.0	147.2	156.9	167.9	177.8	187.0	198.1
<i>Self assessment</i>	23.6	24.9	31.4	29.1	32.6	35.0	37.4
National insurance contributions	110.3	114.6	127.0	133.2	139.3	146.0	153.4
Value added tax	111.2	115.6	120.1	124.9	130.2	135.9	142.3
Corporation tax <sup>2</sup>	43.0	44.3	44.8	49.8	47.9	45.3	46.6
<i>of which: Onshore</i>	40.9	43.4	44.2	49.2	47.4	44.9	46.1
<i>Offshore</i>	2.1	0.9	0.6	0.6	0.5	0.4	0.5
Petroleum revenue tax	0.1	-0.7	-0.5	-0.4	-0.3	-0.2	-0.1
Fuel duties	27.2	27.4	27.5	28.0	28.5	29.1	29.7
Business rates	27.3	27.8	28.2	29.1	30.2	31.4	32.4
Council tax	27.9	28.7	29.8	30.9	32.1	33.4	34.8
VAT refunds	13.7	14.1	14.5	14.7	14.6	14.9	15.6
Capital gains tax	5.6	6.4	6.7	7.3	7.9	9.5	9.4
Inheritance tax	3.8	4.4	4.6	4.8	4.9	5.2	5.6
Stamp duty land tax <sup>3</sup>	10.9	11.2	12.9	14.3	15.4	16.6	17.8
Stamp taxes on shares	2.9	2.9	3.1	3.2	3.3	3.5	3.7
Tobacco duties	9.3	9.2	9.1	9.1	9.2	9.4	9.5
Spirits duties	3.0	3.3	3.3	3.5	3.6	3.8	3.9
Wine duties	3.8	4.0	4.1	4.4	4.7	5.0	5.3
Beer and cider duties	3.7	3.6	3.5	3.7	3.7	3.8	3.8
Air passenger duty	3.2	3.1	3.2	3.3	3.5	3.7	3.8
Insurance premium tax	3.0	3.5	4.6	4.7	4.8	4.9	5.0
Climate change levy	1.6	2.1	2.5	2.4	2.3	2.2	2.0
Other HMRC taxes <sup>4</sup>	6.6	6.9	6.9	6.9	7.1	7.4	7.7
Vehicle excise duties	5.9	5.4	5.3	5.5	5.7	5.9	6.1
Bank levy	2.8	3.5	2.9	2.7	2.5	2.4	2.2
Bank surcharge	0.0	0.0	1.0	1.6	1.6	1.3	1.4
Apprenticeship levy	0.0	0.0	0.0	2.7	2.8	3.0	3.1
Licence fee receipts	3.1	3.1	3.1	3.2	3.2	3.3	3.3
Environmental levies	3.6	6.2	7.3	8.5	10.3	12.2	13.1
EU ETS auction receipts	0.6	0.5	0.5	0.6	0.6	0.6	0.6
Scottish taxes <sup>5</sup>	0.0	0.5	0.6	0.7	0.7	0.8	0.9
Diverted profits tax	0.0	0.0	0.3	0.4	0.3	0.4	0.4
Other taxes	6.3	7.4	7.4	7.9	8.2	8.5	8.8
<b>National Accounts taxes</b>	<b>603.9</b>	<b>630.9</b>	<b>671.2</b>	<b>706.6</b>	<b>737.6</b>	<b>768.8</b>	<b>805.5</b>
Less own resources contribution to EU	-3.0	-3.1	-3.2	-3.1	-3.1	-3.2	-3.5
Interest and dividends	6.0	6.2	6.3	8.1	9.7	11.5	13.2
Gross operating surplus	44.5	45.7	47.2	49.0	50.4	52.0	54.6
Other receipts	3.1	2.5	1.9	2.0	2.0	2.0	2.1
<b>Current receipts</b>	<b>654.3</b>	<b>682.2</b>	<b>723.4</b>	<b>762.7</b>	<b>796.5</b>	<b>831.1</b>	<b>871.9</b>
<i>Memo: UK oil and gas revenues<sup>6</sup></i>	<i>2.2</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.2</i>	<i>0.3</i>

<sup>1</sup> Includes PAYE, self assessment, tax on savings income and other minor components.

<sup>2</sup> National Accounts measure, gross of reduced liability tax credits.

<sup>3</sup> Forecast for SDLT is for England, Wales and Northern Ireland from 2015-16.

<sup>4</sup> Consists of landfill tax (ex Scotland from 2015-16), aggregates levy, betting and gaming duties and customs duties.

<sup>5</sup> Consists of Scottish LBTT and landfill tax but not the Scottish rate of income tax or aggregates levy.

<sup>6</sup> Consists of offshore corporation tax and petroleum revenue tax.

# List of abbreviations

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AME	Annually Managed Expenditure
ALBs	Arm's Length Bodies
APC	Advanced Propulsion Centre
ATED	Annual Tax on Enveloped Dwellings
ATI	Aerospace Technology Institute
BBC	British Broadcasting Corporation
BFI	British Film Institute
BIS	Department for Business, Innovation and Skills
CCL	Climate Change Levy
CGNCR	Central Government Net Cash Requirement
CCT	Company Car Tax
CGT	Capital Gains Tax
CMA	Competitions and Markets Authority
CML	Council of Mortgage Lenders
CO	Cabinet Office
CoACSSs	Co-ownership Authorised Contractual Schemes
CPI	Consumer Price Index
CRC	Carbon Reduction Commitment
CSSF	Conflict, Security and Stability Fund
CT	Counter-Terrorism
DAs	Devolved Administrations
DCLG	Department for Communities and Local Government
DCMS	Department for Culture, Media and Sport
DECC	Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
DEL	Departmental Expenditure Limits
DfE	Department for Education
DFID	Department for International Development
DfT	Department for Transport
DH	Department of Health
DITMOs	Deep In The Money Options
DMO	Debt Management Office
DVLA	Driver and Vehicle Licencing Agency
DWP	Department for Work and Pensions
EBacc	English Baccalaureate
ECO	Energy Company Obligation
EFO	Economic and Fiscal Outlook
EII	Energy Intensive Industries
EIS	Enterprise Investment Scheme
ERS	Employment related securities
EU	European Union

FCO	Foreign and Commonwealth Office
FCTC	Framework Convention on Tobacco Control
FE	Further Education
FERIS	Fraud and Error Reduction Incentive Scheme
FiT	Feed in Tariffs
FLS	Funding for Lending Scheme
G7	A group of 7 major industrial nations (comprising: Canada, France, Germany, Italy, Japan, UK and US)
G20	A group of 20 finance ministers and central bank governors representing 19 countries plus the European Union
GAAR	General Anti-Abuse Rule
GCHQ	Government Communications Headquarters
GDP	Gross Domestic Product
GNI	Gross National Income
GP	General Practitioner
HE	Higher Education
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
HO	Home Office
HR	Human Resources
HS2	High Speed 2
ILO	International Labour Organization
IMF	International Monetary Fund
IFRS	International Financial Reporting Standards
ISA	Individual Savings Account
IT	Information Technology
JSA	Jobseeker's Allowance
LEPs	Local Enterprise Partnerships
LG	Local Government
LBG	Lloyds Banking Group
LIBOR	London Interbank Offered Rate
LPC	Low Pay Commission
MIR	Mandatory Intervention Regime
MOD	Ministry of Defence
MoJ	Ministry of Justice
MPA	Major Projects Authority
MPC	Monetary Policy Committee
NATO	North Atlantic Treaty Organisation
NCSP	National Cyber Security Programme
NDA	Nuclear Decommissioning Authority
NFR	Net Financing Requirement
NHS	National Health Service
NIC	National Infrastructure Commission
NICs	National Insurance Contributions
NLW	National Living Wage
NMW	National Minimum Wage

NSC	National Security Council
NS&I	National Savings and Investments
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
PAIFs	Property Authorised Investment Funds
PAYE	Pay As You Earn
PCCs	Police and Crime Commissioners
PEX	Public Expenditure Committee
POTAS	Promoters of Tax Avoidance Scheme
PSCR	Public Sector Current Receipts
PSNB	Public Sector Net Borrowing
PSND	Public Sector Net Debt
R&D	Research and Development
RBS	Royal Bank of Scotland
RDEL	Resource Departmental Expenditure Limits
RHDI	Real Household Disposable Income
RIS	Roads Investment Strategy
RO	Renewables Obligation
RPI	Retail Prices Index
RTI	Real Time Information
SBRR	Small Business Rate Relief
SDLT	Stamp Duty Land Tax
SDSR	Strategic Defence and Security Review
SEIS	Seed Enterprise Investment Scheme
SIA	Single Intelligence Account
SITR	Social Investment Tax Relief
SMEs	Small and Medium-sized Enterprises
STEM	Science, Technology, Engineering and Mathematics
TDEL	Total Departmental Expenditure Limits
TfL	Transport for London
TfN	Transport for the North
TME	Total Managed Expenditure
UKAR	UK Asset Resolution
UKGI	UK Government Investments Limited
UKTI	UK Trade and Investment
ULEVs	Ultra-low emission vehicles
VAT	Value Added Tax
VCT	Venture Capital Trusts
WEO	World Economic Outlook

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