

National Assembly for Wales

Chancellor's Budget 2011 March 2011

On Wednesday 23 March 2011 the Chancellor of the Exchequer, (George Osborne) presented the UK Government's Budget 2011.

This paper provides a range of information on the Budget 2011, including a summary of the economic and fiscal forecasts, an overview of the Budget's potential impact on Wales and a summary of the main policy decisions contained within the Budget.

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National Assembly for Wales

Chancellor's Budget 2011

March 2011

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Summary

On Wednesday 23 March 2011 the Chancellor of the Exchequer, (George Osborne) presented the UK Government's Budget 2011.¹

Budget 2011 is structured around three key areas:

- a strong and stable economy;
- growth; and
- fairness.

This paper provides a range of information on the Budget 2011, including a summary of the economic and fiscal forecasts, an overview of the budget's potential impact on Wales and a summary of the main policy decisions contained within the Budget.

It should be noted that this paper is not intended to provide an exhaustive list of all the policy decisions announced in Budget 2011, but provides a summary of the main headlines in particular areas.

The costs of policy decisions taken in Budget 2011 are shown in [annex A](#), and the cost of policy decisions taken prior to the Spending Review 2010 which are due to be implemented after April 2011 are shown in [annex B](#).

¹ HM Treasury, [Budget 2011](#), 23 March 2011 [accessed 28 March 2011]

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Chancellor's Budget 2011

1. About the Chancellor's Budget

The budget is the major financial and economic statement made each year by the Chancellor of the Exchequer to Parliament and the nation. The role of the budget is to:

- provide an update on the state of the economy and public finances and to present new forecasts for each;
- set out the Government's economic and fiscal objectives;
- report on progress the Government has made towards achieving its objectives and set out further steps the Government is taking.

Prior to the current UK Government, economic forecasts in the budget were conducted by HM Treasury. Following the formation of the current UK Government the Office for Budget Responsibility (OBR)² was formed to make independent assessments of the public finances and the economy. The OBR is now being placed on a permanent, statutory footing through the *Budget Responsibility and National Audit Act 2011*, which received Royal Assent on 22 March. The OBR has produced all the official forecasts of the economy and public finances since the General Election, independently of Ministers. The budget is accompanied by the OBR's Economic and Fiscal Outlook³ which takes into account the policy decisions contained within the budget.

Following the publication of the Chancellor's Budget, the main estimates⁴ are prepared requesting Parliamentary authority for expenditure through the supply procedure⁵ (including grants for the devolved administrations).

² [Office for Budget Responsibility](#) [accessed 23 March 2011].

³ Office For Budget Responsibility, [Economic and Fiscal Outlook](#), 23 March 2011 [accessed 28 March 2011]

⁴ **Main estimates** – the estimates that set out the resource budget for each UK Government department. These consist of a number of Requests for resources (RfRs) and show the total gross expenditure and income for each RfR. Expenditure is authorised by the House of Commons by voting the estimates.

⁵ **Supply procedure** – the process by which Parliament approves government department's resource and cash provision for the year.

2. Overview of Government spending

Budget 2011 states that:

Budget 2011 discretionary policy decisions have a neutral impact on the public finances. The costs of policy decisions announced in this Budget are broadly offset in each year by measures to raise revenue. This balanced judgement reinforces the fiscal consolidation plans announced at June Budget 2010 and Spending Review 2010.⁶

The costs of policy decisions taken in Budget 2011 are shown in [annex A](#), and the cost of policy decisions taken prior to the Spending Review 2010 which are due to be implemented after April 2011 are shown in [annex B](#).

[Figure 1](#) is taken from Budget 2011⁷ and shows the projections for the amount of Government spending in 2011-12 by function. Total managed expenditure (TME)⁸ for 2011-12 is set to be £710.4 billion. This is £10 billion higher than that predicted for 2011-12 in the 2010 Budget⁹ and £6 billion higher than that predicted by the OBR in November 2010.¹⁰

Social protection accounts for around 28 per cent of TME, health accounts for 18 per cent and education for 13 per cent. It is interesting to note that debt interest accounts for 7 per cent of TME in 2011-12. This is 1 per cent higher than in 2010-11.

[Figure 2](#) is taken from Budget 2011¹¹ and shows projected government receipts for 2011-12. Total government receipts for 2011-12 are set to be £588.6 billion. This is £5 billion higher than that predicted for 2011-12 in the 2010 Budget¹² and £3 billion higher than that predicted by the OBR in November 2010.¹³

Thus, it can be seen that **government expenditure exceeds government receipts by £121.8 billion in 2011-12.**

⁶ HM Treasury, [Budget 2011](#), 23 March 2011 page 19 [accessed 28 March 2011]

⁷ HM Treasury, [Budget 2011](#), 23 March 2011 page 6 [accessed 28 March 2011]

⁸ **Total managed expenditure (TME)** – represents the revenue and capital spending of the public sector and is made up of departmental expenditure limits (DEL) and annually managed expenditure (AME).

⁹ HM Treasury, [Budget 2010](#), June 2010 page 45 [accessed 28 March 2011]

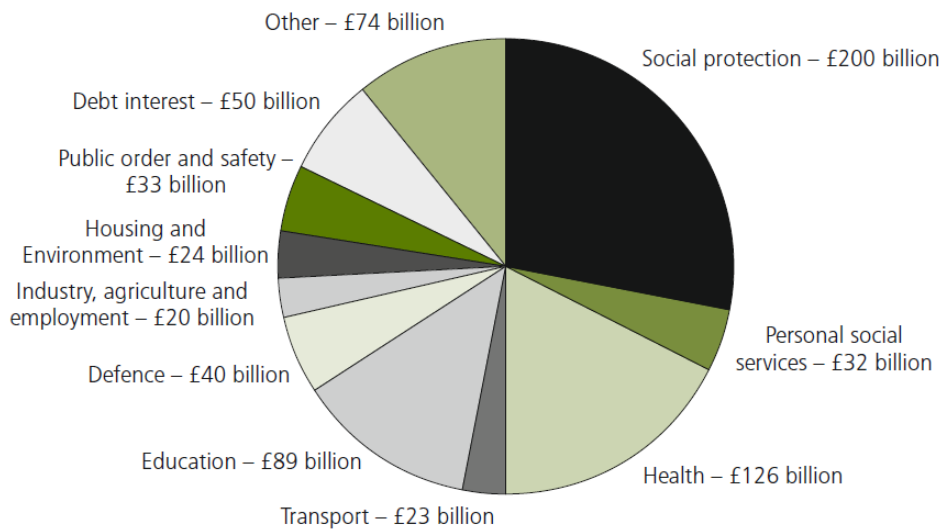
¹⁰ Office For Budget Responsibility, [Economic and Fiscal Outlook](#), November 2010 page 103 [accessed 28 March 2011]

¹¹ HM Treasury, [Budget 2011](#), 23 March 2011 page 6 [accessed 28 March 2011]

¹² HM Treasury, [Budget 2010](#), June 2010 page 90 [accessed 28 March 2011]

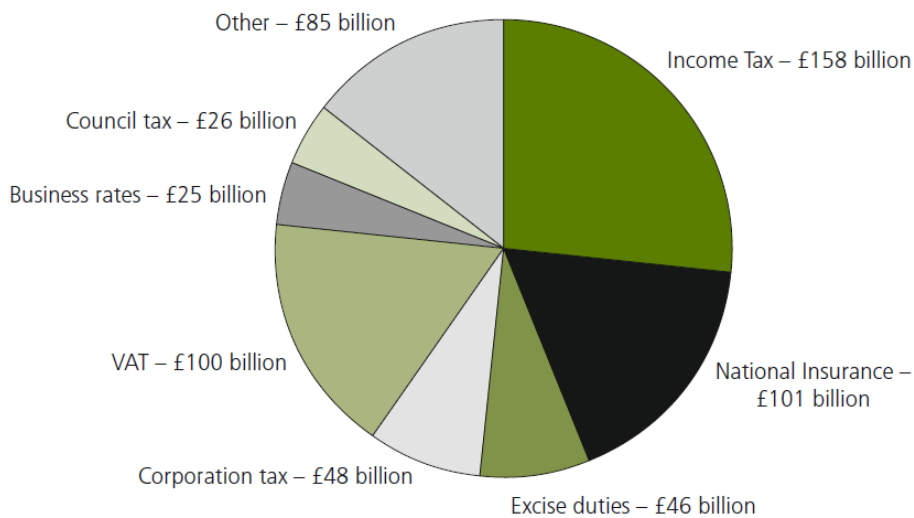
¹³ Office For Budget Responsibility, [Economic and Fiscal Outlook](#), November 2010 page 126 [accessed 28 March 2011]

Figure 1: Government spending by function, 2011-12



Source: Office for Budget Responsibility, 2011-12 estimates. Allocations to functions are based on HMT analyses.

Figure 2: Government receipts, 2011-12



Source: Office for Budget Responsibility, 2011-12 estimates. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts – for example, interest and dividends. Figures may not sum due to rounding.

[Table 1](#) and [figure 3](#) show trends in per capital expenditure across the UK. This uses the measure of total identifiable expenditure on services.¹⁴ This shows that the level of spending per head is higher in the devolved administrations than in England over the last five years. There has been a steady increase in per capita expenditure over the last five years. However, the average annual increase in per capita spend over the last five years has been greatest in England and Scotland (an average of 5.9 and 6.0 per cent per year, respectively), as compared to that in

¹⁴ **Total identifiable expenditure on services** broadly represents the current and capital expenditure of the public sector, with some differences from the National Accounts measure of TME. This is sourced from HM Treasury's [Public Expenditure Statistical Analyses \(PESA\) 2010](#), July 2010 [accessed 28 March 2011]

Northern Ireland and Wales (an average increase of 5.0 and 5.3 per cent per year, respectively). The average annual increase in per capita spend over the last five years for the whole of the UK was 5.8 per cent.

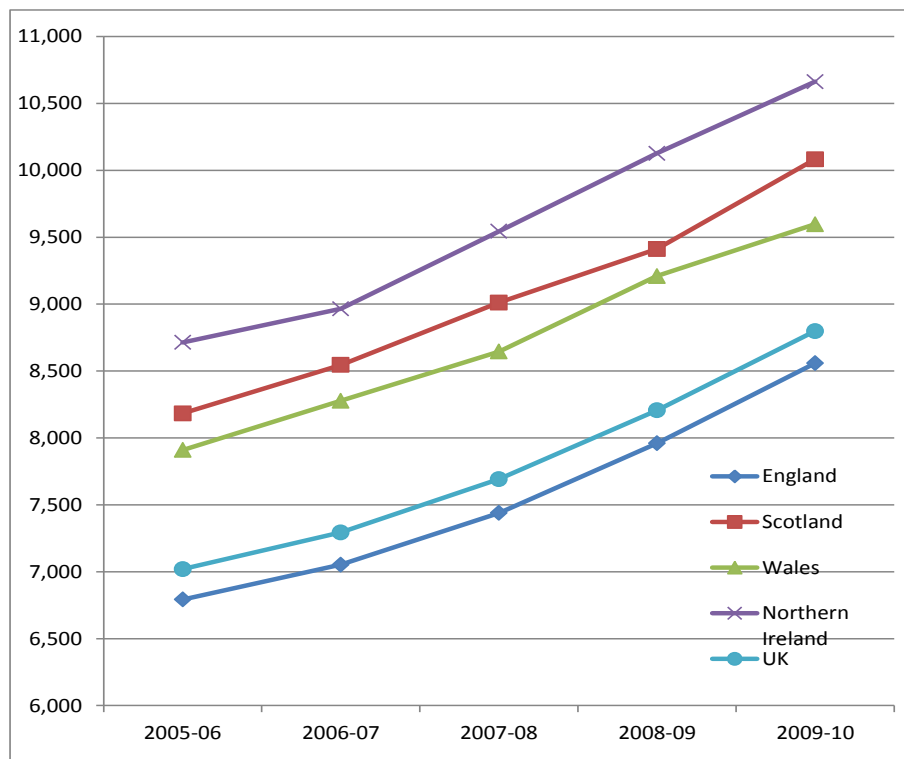
Table 1: Total identifiable expenditure on services per head, 2005-06 to 2009-10

	2005-06		2006-07		2007-08		2008-09		2009-10	
	£ per head	% change on previous year	£ per head	% change on previous year	£ per head	% change on previous year	£ per head	% change on previous year	£ per head	% change on previous year
England	6,792	5.6	7,053	3.8	7,439	5.5	7,960	7.0	8,559	7.5
Scotland	8,183	8.4	8,545	4.4	9,011	5.5	9,412	4.4	10,083	7.1
Wales ⁽¹⁾	7,910	6.4	8,277	4.6	8,646	4.5	9,209	6.5	9,597	4.2
Northern Ireland ⁽¹⁾	8,714	4.4	8,965	2.9	9,544	6.5	10,127	6.1	10,662	5.3
UK	7,019	5.8	7,294	3.9	7,692	5.5	8,206	6.7	8,798	7.2

Source: Members' Research Service calculations from HM Treasury, [PESA 2010](#)

1. The relative decrease in 2009-10 is largely due to the timing of End Year Flexibility and Reserve claims, which for Wales and Northern Ireland were agreed in the spring and so are not included.

Figure 3: Total identifiable expenditure on services by country, per head



Source: Members' Research Service calculations from HM Treasury, [PESA 2010](#)

3. UK economic and fiscal forecasts

Budget 2011 provides the Office for Budget Responsibility's forecasts for the UK economy and the fiscal projections. The budget report states that:

The OBR forecast remains for a sustained recovery.¹⁵

3.1. UK gross domestic product (GDP)

GDP is a measure of national income and output for the country's economy. It is the total value of all final goods and services produced within a particular economy; it represents the value of all goods and services produced within a country in a given year.

The forecasts presented alongside Budget 2010 (June 2010)¹⁶ estimated that GDP would increase by 1.2 per cent in 2010, 2.3 per cent in 2011, and 2.8 per cent in 2012. The OBR revised these forecasts in November 2010¹⁷ to 1.8 per cent in 2010, 2.1 per cent in 2011 and 2.6 per cent in 2012.

During quarter 4 of 2010, the economy contracted by 0.6 per cent, following growth of 0.7 per cent in quarter 3.¹⁸ The forecasts accompanying the Budget 2011 revise the earlier growth figures in light of this contraction, to 1.7 per cent in 2011 and 2.5 per cent in 2012.

Budget 2011 states that:

The economy is forecast to grow by 1.7 per cent in 2011, lower than forecast in the June Budget. This mainly reflects higher-than-expected inflation this year as a result of recent global commodity price shocks, and the weak weather-affected final quarter of 2010. GDP growth is then forecast to strengthen, with growth peaking at 2.9 per cent in 2013.¹⁹

[Table 2](#) and [figure 4](#) show a comparison of UK GDP growth forecasts by the OBR in this and previous forecasts, and other independent forecasts.

¹⁵ HM Treasury, [Budget 2011](#), 23 March 2011 page 2 [accessed 28 March 2011]

¹⁶ HM Treasury, [Budget 2010](#), June 2010 page 18 [accessed 28 March 2011]

¹⁷ Office For Budget Responsibility, [Economic and Fiscal Outlook](#), November 2010 page 69 [accessed 28 March 2011]

¹⁸ Office for National Statistics, [UK output, income and expenditure](#), February 2011 [accessed 28 March 2011]

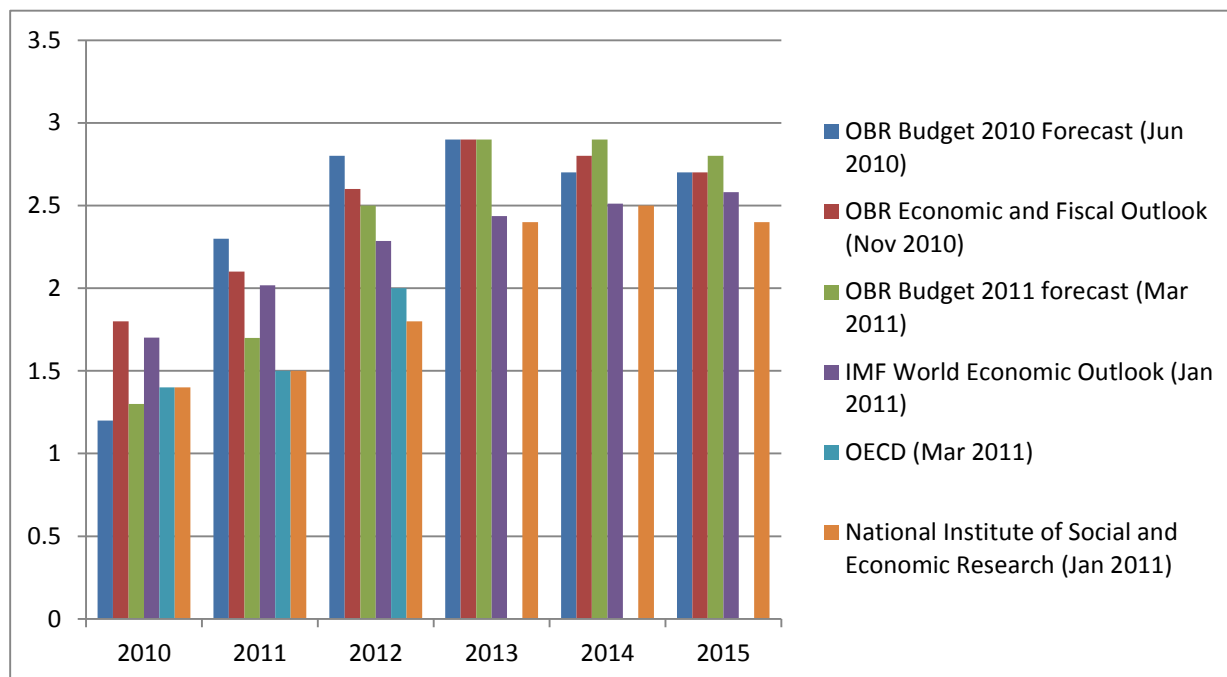
¹⁹ HM Treasury, [Budget 2011](#), 23 March 2011 page 2 [accessed 28 March 2011]

Table 2: Comparison of GDP growth forecasts

Year	<i>% change on previous year</i>					
	OBR Budget 2010 Forecast (Jun 2010)	OBR Economic and Fiscal Outlook (Nov 2010)	OBR Budget 2011 forecast (Mar 2011)	IMF World Economic Outlook (Jan 2011)	OECD (Mar 2011)	National Institute of Social and Economic Research (Jan 2011)
2010	1.2	1.8	1.3	1.7	1.4	1.4
2011	2.3	2.1	1.7	2.0	1.5	1.5
2012	2.8	2.6	2.5	2.3	2.0	1.8
2013	2.9	2.9	2.9	2.4	..	2.4
2014	2.7	2.8	2.9	2.5	..	2.5
2015	2.7	2.7	2.8	2.6	..	2.4

Source: OBR, [Economic and Fiscal Outlook](#), March 2011

Figure 4: Comparison of GDP growth forecasts, per cent change on previous year



Source: OBR, [Economic and Fiscal Outlook](#), March 2011

3.2. Inflation forecasts

Budget 2011 reaffirms the inflation target of 2 per cent for the 12 month increase in the Consumer Prices Index (CPI), which applies at all times. It also reaffirms that the Monetary Policy Committee of the Bank of England has full operational independence to set policy to meet the inflation target.²⁰

The OBR's Economic and Fiscal Outlook accompanying Budget 2011 states that recent months have seen large and unexpected surges in commodity prices, and this along with other temporary factors, has helped to push up inflation over the past year. It goes on to state that:

In its latest inflation report the Bank of England estimated that, excluding the contribution of these temporary factors, prices of other goods and services have on average increased at a rate below the inflation target in 2010 and that import prices, energy prices and the increases in the standard rate of VAT together could be adding 2 to 4 percentage points to CPI inflation in the final quarter of 2010.²¹

CPI annual inflation was 4.4 per cent in February 2011, up from 4.0 per cent in January. This is the highest annual rate since October 2008. CPI has been above the Bank of England target rate of 2 per cent for fifteen consecutive months.²²

[Table 3](#) and [figure 5](#) shows a comparison of CPI forecasts by the OBR in this and previous forecasts, and other independent forecasts for comparison.

Table 3: Comparison of CPI forecasts

Year	OBR Budget 2010 Forecast (Jun 2010)	OBR Economic and Fiscal Outlook (Nov 2010)	OBR Budget 2011 forecast (Mar 2011)	IMF World Economic Outlook (Jan 2011)	OECD (Mar 2011)	<i>per cent</i>	
						National Institute of Social and Economic Research (Jan 2011)	
2010	2.7	3.0	3.3	3.1	3.3		3.3
2011	2.4	2.8	4.2	2.5	3.3		3.8
2012	1.9	1.9	2.5	1.7	1.8		1.8
2013	2.0	2.0	2.0	1.9	..		1.8
2014	2.0	2.0	2.0	2.0	..		2.0
2015	2.0	2.0	2.0	2.0	..		2.0

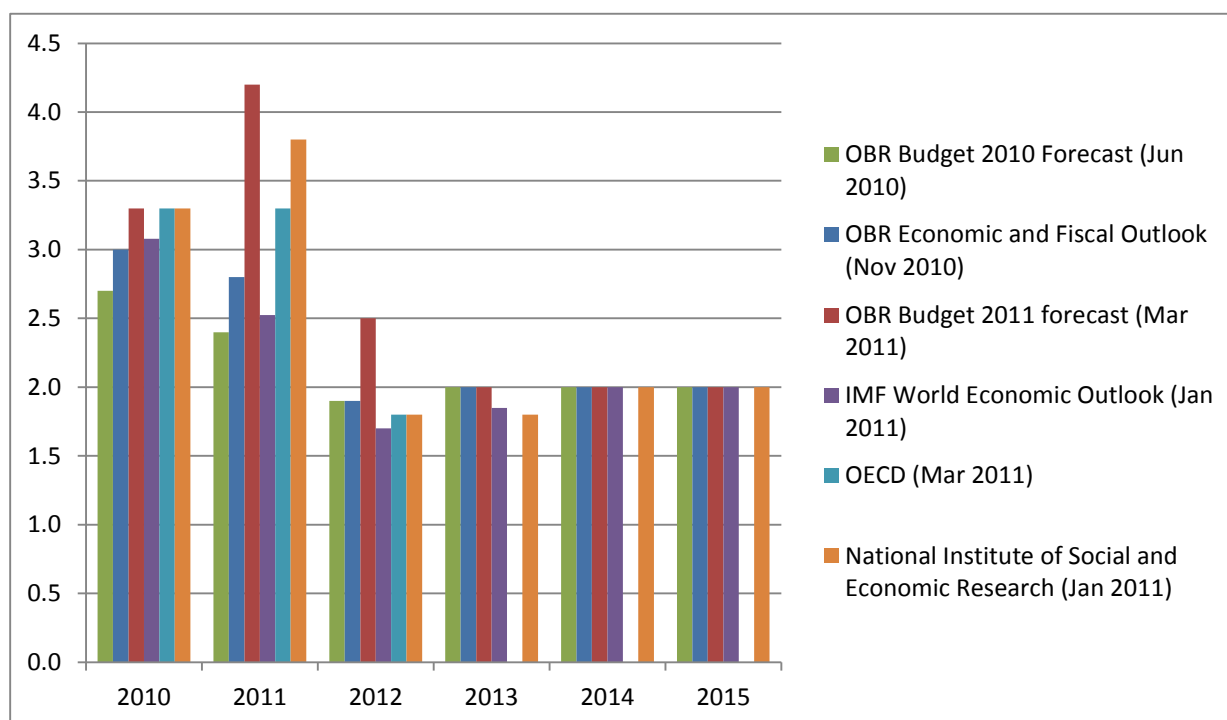
Source: OBR, [Economic and Fiscal Outlook](#), March 2011

²⁰ HM Treasury, [Budget 2011](#), 23 March 2011 page 14 [accessed 28 March 2011]

²¹ Office For Budget Responsibility, [Economic and Fiscal Outlook](#), 23 March 2011 page 64 [accessed 28 March 2011]

²² Office for National Statistics, [Inflation](#), March 2011

Figure 5: Comparison of CPI forecasts, per cent



Source: OBR, [Economic and Fiscal Outlook](#), March 2011

The OBR's Economic and Fiscal Outlook also forecasts inflation on the basis of the Retail Price Index (RPI). RPI is forecast to be 4.6 per cent in 2010, peaking at 5.1 per cent in 2011, and then decreasing to 3.6 per cent in 2012, 3.5 per cent in 2013, 3.6 per cent in 2014 and 3.8 per cent in 2015.²³

RPI rose to 5.5 per cent in February 2011, up from 5.1 per cent in January. This is now at its highest rate since January 1991.²⁴

To give some context to these inflation figures it is interesting to look at average earnings. The average weekly earnings (three month average, including bonuses) for the whole economy rose by 2.3 per cent in November to January compared with a year ago, this is up from 1.8 per cent in the three months to December 2010. The average weekly earnings excluding bonuses were 2.2 per cent higher in the three months to January compared with a year ago, down from 2.3 per cent in December.²⁵

²³ HM Treasury, [Budget 2011](#), 23 March 2011 page 90 [accessed 28 March 2011]

²⁴ Office for National Statistics, [Inflation](#), March 2011

²⁵ Office for National Statistics, [Labour Market Statistics](#), March 2011

3.3. *Fiscal projections and balances*

The Budget 2010 set a clear fiscal mandate to:

...achieve cyclically-adjusted current balance by the end of the rolling five-year forecast period.²⁶

It also set a supplementary target for debt, which requires net debt, as a percentage of GDP, to be falling by 2015-16.

This mandate and the fiscal policy objectives were set before Parliament in the draft Charter for Budget Responsibility on 22 November 2010.²⁷ The fiscal policy objectives presented in the Charter are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

Budget 2011 states that the June 2010 Budget and Spending Review 2010 took the first steps towards implementing their fiscal strategy through urgent action to address the deficit. It states that:

This Budget's policy decisions have a neutral impact on the public finances, implementing fiscal consolidation as planned.²⁸

The OBR judged that the Government has a greater than 50 per cent chance of meeting these targets under current policy.²⁹

The OBR's Economic and Fiscal Outlook accompanying Budget 2011 sets out the forecasts and balances for the fiscal position of the UK. Table 4 shows changes to the fiscal projections and balances since the Budget 2010.

- Net borrowing is forecast to be lower in 2010-11 than was previously forecast. However it is forecast to rise above previous estimates from 2011-12 to 2015-16. The current forecasts for net borrowing for 2010-11 are £146 billion (or 10 per cent of GDP) and are set to fall to £29 billion (or 1.5 per cent of GDP) by 2015-16.
- Net debt is forecast to be lower in 2010-11 and 2011-12 than previous estimates. However from 2012-13 to 2015-16 the previous estimates have now been revised upwards. The current forecasts for net debt are £909 billion (or 60 per cent of GDP) in 2010-11; these are set to rise to £1,359

²⁶ HM Treasury, [Budget 2010](#), June 2010 page 1 [accessed 28 March 2011]

²⁷ HM Treasury, [Draft: Charter for Budget Responsibility](#), November 2010 [accessed 28 March 2011]

²⁸ HM Treasury, [Budget 2011](#), 23 March 2011 page 2 [accessed 28 March 2011]

²⁹ Office For Budget Responsibility, [Economic and Fiscal Outlook](#), 23 March 2011 page 11 [accessed 28 March 2011]

billion (or 69 per cent of GDP) in 2015-16, peaking at 70.9 per cent of GDP in 2013-14.

[Table 4](#) shows the changes in fiscal projections and balances between the June Budget 2010 and Budget 2011.

Table 4: Changes to fiscal projections and balances

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16							
	OBR Budget 2010 Forecast (Jun 2010)	OBR Economic and Fiscal Outlook (Nov 2010)	OBR Budget 2011 forecast (Mar 2011)	OBR Budget 2010 Forecast (Jun 2010)	OBR Economic and Fiscal Outlook (Nov 2010)	OBR Budget 2011 forecast (Mar 2011)	OBR Budget 2010 Forecast (Jun 2010)	OBR Economic and Fiscal Outlook (Nov 2010)	OBR Budget 2011 forecast (Mar 2011)	OBR Budget 2010 Forecast (Jun 2010)	OBR Economic and Fiscal Outlook (Nov 2010)	OBR Budget 2011 forecast (Mar 2011)	OBR Budget 2010 Forecast (Jun 2010)	OBR Economic and Fiscal Outlook (Nov 2010)	OBR Budget 2011 forecast (Mar 2011)			
<i>Per cent GDP</i>																		
TME	47.3	47.1	47.1	45.5	45.4	46.0	43.9	43.7	44.3	42.2	41.8	42.5	40.9	40.4	41.0	39.8	39.3	39.9
Current receipts	37.2	37.1	37.2	38.0	37.8	38.1	38.4	38.1	38.1	38.7	38.3	38.4	38.8	38.4	38.5	38.7	38.3	38.4
Net borrowing	10.1	10.0	9.9	7.5	7.6	7.9	5.5	5.6	6.2	3.5	3.5	4.1	2.1	1.9	2.5	1.1	1.0	1.5
Surplus on current budget	-7.5	-7.2	-7.1	-5.7	-5.6	-5.8	-4.0	-3.9	-4.5	-2.3	-2.1	-2.7	-0.9	-0.6	-1.2	0.0	0.3	-0.2
Net debt	61.9	60.8	60.3	67.2	66.3	66.1	69.8	69.1	69.7	70.3	69.7	70.9	69.4	68.8	70.5	67.4	67.2	69.1
<i>£ billions</i>																		
TME	696.8	698.2	694.4	699.8	703.7	710.4	711.0	711.3	720.2	722.0	719.3	730.1	737.5	733.0	743.6	757.5	752.9	763.8
Current receipts	547.7	549.7	548.5	584.2	586.2	588.6	621.9	620.3	619.7	661.9	659.1	660.3	700.1	698.0	697.5	737.0	734.6	734.5
<i>TME exceeds current receipts by</i>	<i>149.1</i>	<i>148.5</i>	<i>145.9</i>	<i>115.6</i>	<i>117.5</i>	<i>121.8</i>	<i>89.1</i>	<i>91.0</i>	<i>100.5</i>	<i>60.1</i>	<i>60.2</i>	<i>69.8</i>	<i>37.4</i>	<i>35.0</i>	<i>46.1</i>	<i>20.5</i>	<i>18.3</i>	<i>29.3</i>
Net borrowing	149.0	148.5	145.9	116.0	117.0	122.0	89.0	91.0	101.0	60.0	60.0	70.0	37.0	35.0	46.0	20.0	18.0	29.0
Surplus on current budget	-110.0	-106.2	-104.8	-88.0	-87.0	-90.0	-65.0	-64.0	-73.0	-40.0	-37.0	-46.0	-17.0	-11.0	-22.0	0.0	6.0	-5.0
Net debt	932.0	922.9	909.2	1,059.0	1,052.0	1,046.0	1,162.0	1,157.0	1,164.0	1,235.0	1,232.0	1,251.0	1,284.0	1,284.0	1,314.0	1,316.0	1,320.0	1,359.0

Source: Office for Budget Responsibility, Economic and Fiscal Outlook, [June 2010](#), [November 2010](#) and [March 2011](#).

3.4. Compliance with EU recommendations

The EU [Stability and Growth Pact](#) requires all Member States to keep their deficits below **3 per cent of GDP** and their **debt to GDP ratio below 60 per cent**. Should a Member State go beyond these limits, it enters the Excessive Deficit Procedure (EDP). Once the Member State is in EDP, it receives recommendations from the Economic and Financial Affairs Council on how to bring the deficit back below the 3 per cent threshold. 24 Member States, including the UK, are currently in the EDP.

The council decided that the UK was in EDP in July 2008, and the current deadline for correction of this is 2014-15.

The most recent report received from the Council relating to the UK state that:

...the Council adopted a decision in April 2009 deeming insufficient the action taken pursuant to its first recommendation and made a new recommendation. In December 2009 it revised the new recommendation in the light of a deterioration in the economic situation in the United Kingdom, which had taken appropriate action to comply. The Council then required that the deficit be brought below the 3 % of GDP threshold in the 2014-15 financial year at the latest.³⁰

³⁰ Council of the European Union, Press Release, [3027th Council Meeting: Economic and Financial Affairs](#), 13 July 2010 [accessed 28 March 2011]

4. Impact of Budget 2011 on Welsh block funding

Budget 2011 states that the policy decisions within the budget are broadly offset in each year by revenue raising measures, and therefore the budget is cost neutral; however as a result of policy decisions announced in Budget 2011 these are additional consequentials to the Welsh block.

[Table 5](#) shows the forecasts made for revenue and capital departmental expenditure limits (DEL)³¹ allocations to Wales as part of the block grant for 2011-12 to 2014-15 as compared with those figures in Spending Review 2010.

Table 5: Revenue and capital DEL forecasts, 2011-12 to 2014-15

	<i>£ billions</i>	
	Spending Review 2010 (Oct 2010)	Budget 2011 (Mar 2011)
Revenue DEL		
2011-12	13.3	13.3
2012-13	13.3	13.4
2013-14	13.5	13.5
2014-15	13.5	13.5
Capital DEL		
2011-12	1.3	1.3
2012-13	1.2	1.2
2013-14	1.1	1.1
2014-15	1.1	1.1

Source: HM Treasury, [Budget 2010](#), [Spending Review 2010](#) and [Budget 2011](#).

Estimates for 2010-11 in Budget 2011 are not comparable to Spending Review baselines, as baselines exclude one-off and time-limited expenditure and other changes

These figures suggest no change to 2011-12 figures, a £0.1 billion increase in revenue DEL in 2012-13 and no change in 2013-14 and 2014-15. However, as these figures are rounded to billions, it is difficult to see any changes as a result of the budget, as changes less than £100 million cannot be identified.

Budget 2011 gives rise to **consequentials for Wales of up to £65 million** over the five years from 2011-12 to 2015-16. HM Treasury's press notice states that:

Additional provision of £65 million has been made available to the Welsh Assembly Government as consequentials of increased spending by UK departments announced in Budget 2011.³²

These consequentials are as a result of decisions taken to increase spend, including £12 million as a result of support for first-time buyers under the

³¹ **Departmental expenditure limits (DEL)** – normally set over three years as part of the spending review process. Most of the Welsh DEL is unhypothecated and allows the Welsh Ministers complete discretion over its allocation. Changes in provision for these items are determined by the Barnett formula.

³² HM Treasury, [Budget 2011 Regional Press Notice: Budget Report 2011 Wales](#), 23 March 2011 [accessed 28 March 2011]

FirstBuy scheme, £10 million as a result of apprenticeships, £10 million as a result of Enterprise Zones, as well as consequential as a result of decisions relating to support for technical colleges and small business rates relief.

Budget 2011 states that:

The Government is committed to fair and accountable funding for Wales, including taking forward discussions on all aspects of the final Holtham report.³³

4.1. End year flexibility

Spending Review 2010 stated that the end year flexibility (EYF) scheme was to be abolished at the end of 2010-11, including all accumulated stocks, and would be replaced with a new system from 2011-12.³⁴

Budget 2011 announces the introduction of the replacement system for EYF, Budget Exchange. It is stated that:

This will allow departments to surrender an underspend in advance at the end of the financial year, in return for a corresponding increase in their budget the following year, subject to a prudent limit.³⁵

This raises questions in relation to how far in advance HM Treasury would have to be notified of any planned underspends, and whether this will allow for effective financial planning, and also regarding the detail of the 'prudent limits'.

During his attendance before Finance Committee, the Chief Secretary to the Treasury (Danny Alexander) stated that EYF would be replaced with a new system which would allow carry forward of underspends from one year to the next. He went on to state that the devolved administrations would have more flexibility than UK Government departments.³⁶ He stated that:

The idea is to have a system in which underspends will be carried forward from one year to the next. For UK Government departments, that will be done by agreement with the Treasury; for devolved administrations, it will be done automatically. That will apply to underspends in the capital sphere also.³⁷

Thus, suggesting that the devolved administrations were not to be treated in a similar manner to Whitehall departments. However, the Budget Exchange system outlined in Budget 2011 appears to apply to all UK Government departments.

Despite requests from the Welsh Government, as well as trilateral requests from the Welsh, Scottish and Northern Ireland Ministers; HM Treasury has repeatedly

³³ HM Treasury, [Budget 2011](#), 23 March 2011 page 512 [accessed 28 March 2011]

³⁴ HM Treasury, [Spending Review 2010](#), October 2010 page 18 [accessed 28 March 2011]

³⁵ HM Treasury, [Budget 2011](#), 23 March 2011 page 49 [accessed 28 March 2011]

³⁶ Finance Committee, [RoP 22 November 2010](#) page 12 [accessed 28 March 2011]

³⁷ Finance Committee, [RoP 22 November 2010](#) page 13 [accessed 28 March 2011]

refused to release existing accumulated stocks of EYF to the devolved administrations.³⁸

Responding to Budget 2011, the Minister for Business and Budget (Jane Hutt) stated her disappointment that the Welsh EYF stocks of £385 million have been written off, and stated that:

This is our money voted by Parliament to Wales that should be used to support investment in public services and in supporting the economic recovery, rather than retained by Treasury. It does not appear that the new Budget Exchange announcements will rectify this loss.

I am now seeking a meeting with the Chief Secretary to the Treasury to discuss the impacts of the Budget, taking forward the fair funding Holtham agenda and the flexibilities we need for sensible budget management.³⁹

³⁸ Welsh Government, Minister for Business and Budget (Jane Hutt), [An update on recent discussions between the Welsh Assembly Government and HM Treasury](#), Cabinet Written Statement, 10 January 2011; Welsh Government, Minister for Business and Budget (Jane Hutt), [Most recent letter from Chief Secretary to the Treasury regarding end year flexibility](#), Cabinet Written Statement, 10 February 2011; Welsh Government, Minister for Business and Budget (Jane Hutt), [End year flexibility – the Chief Secretary’s response](#), Cabinet Written Statement, 2 March 2011 [accessed 28 March 2011]

³⁹ Welsh Government, Press Release, [Missed Opportunity for Wales](#), 23 March 2011 [accessed 28 March 2011]

5. Policy decisions in relation to growth

Alongside the budget the Government published their *Plan for Growth*,⁴⁰ which sets out their microeconomic policies to support growth. It is centred on four ambitions, to:

- create the most competitive tax system in the G20;
- make the UK the best place in Europe to start, finance and grow a business;
- encourage investment and exports as a route to a more balanced economy; and
- create a more educated workforce that is the most flexible in Europe.

The following sections detail some of the main policy decisions, and the Government's assessment of how these will enable them to achieve these ambitions.

5.1. Tax competitiveness

- Reduce the main rate of **corporation tax** by a further 1 per cent, in addition to the planned 1 per cent reduction announced in the June Budget 2010. From April 2011 the rate will be reduced from 28 per cent to 26 per cent and, by 2014, it will be reduced to 23 per cent. This will promote higher levels of business investment and help the UK maintain the lowest rate in the G7. There will also be an opt-in exemption from corporation tax on profits of foreign branches of UK companies.
- To offset the benefits to banks from the further cut in corporation tax, the rate of the **Bank Levy** will increase from 0.075 per cent to 0.078 per cent from 1 January 2012.
- Introduction of **Controlled Foreign Company rules** to allow groups based in the UK to compete more effectively with those based overseas. Further consultation to take place in May 2011, followed by draft legislation in autumn 2011.
- Consult further on the introduction of a **patent box** in May 2011, setting out details of how this will operate. Followed by draft legislation in autumn 2011. This will provide a 10 per cent corporate tax rate for profits from patents, to encourage UK business to invest in further innovation.

⁴⁰ HM Treasury and Department for Business, Innovation and Skills, [Plan for Growth](#), 23 March 2011 [accessed 28 March 2011]

5.2. *Tax simplification*

- In response to the work of the **Office for Tax Simplification** 43 tax reliefs will be abolished to reduce complexity.
- The Government will consult this year on options for **integrating the operation of income tax and National Insurance Contributions (NICs)**.

5.3. *Deregulation*

- **Drop existing proposals for specific regulations** which would have cost business over £350 million a year. This includes not extending the right to request time to train to businesses with less than 250 employees.
- Introduce a **moratorium exempting micro-business and start-ups from new domestic regulation for three years** from the 1st April 2011.

5.4. *Planning reform*

- Introduce a powerful new **presumption in favour of sustainable development**, so that the default is 'yes' and pilot land auctions, starting with public sector land.
- Localise choice about use of previously developed land, removing nationally imposed targets while retaining controls on greenbelt land.
- Pilot a **land auction model**, starting with public sector land.
- **Streamline the system for planning applications**. This will remove bureaucracy and speed up the system. It will include a 12 month guarantee for processing planning applications, including any appeals.
- Introduce a new fast-track planning for major infrastructure through the **Major Infrastructure Planning system**.
- Consult on proposals to convert commercial premises to residential.
- To accelerate release of public sector land, the Government will work with local authorities to expedite planning decisions for surplus military land and other public sites suitable for housing, and also test 'build now, pay later' techniques to hasten delivery.

5.5. *Start-up finance and business growth*

- **Reform the Enterprise Investment Scheme (EIS) and Venture Capital Trusts**, including raising the rate of EIS income tax relief to 30 per cent from April 2011. This should encourage investment in business with high growth potential. From April 2012 the annual EIS investment rate will be raised to

£1 million, qualifying company limits will be raised to 250 employees and gross assets of £15 million, and the annual investment limit will be raised to £10 million.

- From 6 April 2011, the lifetime limit on capital gains qualifying for **Entrepreneurs' Relief** (eligible gains taxed at 10 per cent rate) will be doubled to £10 million.
- Extend the **small business rate relief** holiday by one year from 1 October 2011.
- As announced by DWP in January 2011, the **New Enterprise Allowance scheme** will be rolled-out nationally to support 40,000 more individuals entering self-employment who have been unemployed for more than six months. Claimants will be able to access mentoring support, loans and an Allowance payment for up to six months. An estimated **1,800 unemployed people in Wales could benefit from this scheme**.

5.6. *Banking*

- The five largest banks in the UK agreed in February 2011 to make **£190 billion of new credit available to business this year**. Of this £76 billion will be made available to SMEs (£10 billion more than was available to SMEs in 2010).
- From January 2012 the rate of the **Bank Levy** will increase, raising £2.5 billion per year.

5.7. *Innovation*

- Increase the **SME rate of R&D tax credit** to 200 per cent from April 2011 and 225 per cent from April 2012. Accompanied by simplification of the R&D tax credit system.
- Additional **investment of £100 million in science capital development** to provide science and innovation campuses, including facilities for the commercialisation of research, accommodation for innovative SMEs and new research capabilities.
- Launch the first **Technology and Innovation Centre** in high value manufacturing to integrate the activities of a number of existing centres.

5.8. *Investment*

- Extend the limit for **capital allowances short life assets election** from four to eight years.
- Extend the **Business Premises Renovation Allowance** for a further five years from 2012.

5.9. *Infrastructure*

- Invest more than £30 billion in transport projects over the next four years. Budget 2011 announces **£200 million of new funding for rail projects**. Budget 2011 confirms the **£4.5 billion Intercity Express programme** and the **£704 million plan to electrify the Great Western Main Line between Cardiff, Bristol and Didcot**. The £4.5 billion programme will see the building of a combination of around 100 electric trains and bi-mode intercity trains which will run to Great Western Main Line stations including Cardiff and Swansea. The first of the new trains is to enter service by 2016. The Budget also announces funding for the **redoubling of the line between Swindon and Kemble**, supporting the introduction of new intercity trains and improving rail access to Wales.
- Provision of **£100 million for local authorities to repair potholes**, funded from within existing budgets. This is in addition to the £100 million announced in February 2011.
- Publish the Government's long term forward view of projects and programmes in autumn 2011 as part of the **National Infrastructure Plan** to give industry confidence to invest. Will also publish quarterly, from autumn 2011, a **rolling two year forward programme of infrastructure and construction projects** where public funding has been agreed. This will enable the construction industry to more effectively respond to opportunities.

5.10. *Growth in all parts of the UK*

- **Establish 21 new Enterprise Zones**. The location of ten of these zones are announced in the Budget, London will also have one of these zones and can choose its site. The Government will also launch a competitive process for interested Local Enterprise Partnerships (LEPs) to establish ten more Enterprise Zones. A range of policy tools will be made available to these Zones;

- 100 per cent business rate discount for businesses that move into an Enterprise Zone during the course of the Parliament (worth up to £275,000 over 5 years);
- All business rates growth within the Zone for at least 25 years will be retained and shared by the local authorities in the LEP area to support their economic priorities;
- Government and local authority help to radically simplify planning in the Zone; and
- Government support to ensure superfast broadband is rolled out in the Zone.

The following will also be considered:

- Scope for introducing enhanced capital allowances to support Zones with a focus on high value manufacturing;
- Use of Tax Incremental Finance to support the long term viability of the Zone; and
- UKTI support on inward investment and trade opportunities.

The Government states that it will **work with the devolved administrations to explore opportunities for using the Enterprise Zone model** across the UK. **Provision has been made in Wales for the Welsh Government to introduce a similar policy if it wishes.**

- The Government confirms that successful bids to the **Regional Growth Fund** (to support private sector growth in areas most dependent on the public sector) will be confirmed shortly and a second round will be launched in April 2011.

5.11. Environment

- To introduce a **carbon price floor for electricity generation** from 1 April 2013, to drive investment in the low-carbon power sector. The floor will start at around £16 per tonne of CO₂ and follow a linear path to £30 per tonne in 2020.
- **Climate Change Agreements (CCA)** will be extended to 2023. The climate change levy discount on electricity for CCA participants will be increased from 65 to 80 per cent from April 2013 to support energy intensive business.
- Government remains committed to funding four **Carbon Capture and Storage (CSS) demonstration plants**. However, it will not proceed with the CSS levy (consistent with tax simplification), and instead will fund commitments to CSS demonstrations from general taxation.

- The Government announces that the **initial capitalisation of the Green Investment Bank (GIB) will be £3 billion and that it will start operation in 2012-13**, a year earlier than anticipated. This Government investment together with private finance should mean that there is around an additional £18 billion invested in green infrastructure by 2014-15 as a result of GIB. The Spending Review allocated £1 billion to GIB, and it is intended that the remaining £2 billion will be funded from asset sales. The Government will enable the GIB to have borrowing powers from 2015-16 once the target for debt to be falling as a percentage of GDP has been met.

5.12. Skills and youth employment

- Funding for an additional **80,000 work experience places for young people**, ensuring up to 100,000 places will be available over the next two years. It is estimated that **5,900 young people in Wales could benefit from this programme**.
- Funding of £180 million for **up to 50,000 additional apprenticeship places** over the next four years. 40,000 places will provide additional capacity to support young unemployed people, particularly through progression from the work experience programme. To address barriers to SMEs accessing apprenticeships the Government will support business consortia to set up and maintain apprenticeship schemes, supported by grants, creating a further 10,000 Higher Level Apprenticeships.
- The Government will provide £150 million of new capital to support improved technical and vocational education, including the expansion of the **University Technical Colleges** programme to establish at least 24 new colleges by 2014. Formed through partnerships between universities, colleges and business these will provide technical training to 11-19 year olds.

5.13. Housing

- Extending the temporary changes to the **Support for Mortgage Interest scheme** for a further year. The 13 week waiting period and £200,000 limit on eligible mortgage capital will remain in force for new working age claimants until January 2013.
- The Government will also provide £250 million to support first-time buyers. These will be equity loans, jointly funded with house-builders, through a **FirstBuy programme** assisting over 10,000 first time buyers to purchase a new-build property.

- Reform the **stamp duty land tax rules applied to bulk purchases** for residential properties to remove a barrier to investment in residential property and promote private rented housing supply.
- Make **Real Estate Investment Trusts** easier to set up and more accessible to investors to encourage investment in the private rented sector over the longer term.

6. Policy decisions in relation to fairness

Budget 2011 takes the next steps towards realising the Government's vision of a fair, simple and effective tax, benefits and pensions system. This also supports the Government's strategy to increase social mobility across the UK.

The following sections detail some of the main policy decisions in relation to achieving fairness.

6.1. *Personal tax*

- From April the personal allowance for under 65s increases by £1,000 to £7,454. This Budget further **increases the personal allowance** for under 65s by £630 to £8,105 in April 2012, with the higher rate threshold unchanged, a further step towards the £10,000 personal allowance commitment. **Around 1.13 million taxpayers in Wales will gain by £48 per year in 2012-13 and that 10,000 taxpayers will be removed from the tax system altogether.**
- Income tax rates are to remain at the 2010-11 level in 2011-12. As stated in June Budget 2010, there will be a £2,400 decrease in the basic rate limit, taking it to £35,000. Thus, the higher rate threshold will be £42,475 (sum of personal allowance plus basic rate limit).
- **Change the underlying indexation basis for direct taxes to the CPI from April 2012.** For the duration of this Parliament, the annual increases in the employer NICs threshold, the age related allowance and other thresholds for older people will be over-indexed compared to the CPI and will increase by the equivalent of the RPI.
- As planned in previous Budgets main and additional rates of NICs will increase by one per cent.
-

6.2. *Pensions*

- **Reform the state pension system** for future pensioners so that it provides simple, contributory, flat-rate support above the level of the means tested Guarantee Credit. DWP will shortly publish a Green Paper to consult on options for reform; this will include the proposal for a single tier pension, estimated to be worth around £140 per week.
- Bring forward proposals to manage changes to the future **State Pension Age** more automatically, including the option of regular independent review of longevity changes.

6.3. *Public sector pay and pensions*

- Departments will consider the report of the **Hutton Review of Fair Pay in the Public Sector** and bring forward proposals for implementation by July 2011.
- The Government intends to use the recommendations in the report of Lord Hutton's **Independent Public Service Pensions Commission** as the basis for consultation, and will set out proposals in the autumn.
- **Discount rate for public sector pensions** following public consultation it has been decided that the discount rate for calculating unfunded public sector pension contribution rates should be based on long term expectation of GDP growth. (This has been rounded to give a figure of 3 per cent above CPI). This is to be reviewed every five years.

6.4. *Charitable giving*

- Reduce the rate of **inheritance tax** by 10 per cent, to 36 per cent from April 2012, for estates leaving 10 per cent or more to charity.
- Increasing **Gift Aid benefit** from £500 to £2,500 in April 2011 to recognise the generosity of significant donors.
- Introduce a **Gift Aid small donations scheme**, which will allow charities to claim Gift Aid on up to £5,000 of small donations per year without need for gift aid declarations.
- Introduce a **new system of Gift Aid on-line filing** to reduce bureaucracy for charities.

6.5. *Duties and North Sea oil and gas*

- **Cut fuel duty by 1p per litre** from 6pm 23 March 2011.
- The fuel duty escalator will be replaced with a **fair fuel stabiliser**. When oil prices are high fuel duty will increase by inflation only. As UK oil and gas production are more profitable at such times, it is fair that the companies should contribute more, so tax on North Sea oil production will increase when oil prices are high. The Supplementary Charge on oil and gas production will increase to 32 per cent from 24 March 2011, raising around £2 billion per year. In future years, if the oil price falls below a set trigger price on a sustained basis, the Government will reduce the Supplementary charge back to 20 per cent and fuel duty will increase by RPI plus 1p per litre
- The April 2011 **inflation-only increase in fuel duty will be delayed to January 2012**. The April 2012 increase will be delayed to August 2012.

- The Government will also **restrict tax relief for decommissioning expenditure** to the 20 per cent rate to avoid incentivising decommissioning when oil prices are high.
- The Government has formally submitted a derogation request to the EC for a **rural fuel duty rebate pilot scheme**. This intends to deliver a 5p per litre duty discount on diesel and petrol across the Inner and Outer Hebrides, the Northern Isles, the Islands in the Clyde and the Isles of Scilly.
- **Vehicle excise duty rate** to increase by RPI indexation in 2011-12 and HGV rates to be frozen.
- **Air Passenger Duty rates** to be frozen for 2011-12, with the RPI increase deferred until 2012-13.
- As announced in the March 2010 Budget **tobacco duties** will increase by 2 per cent above RPI from 6pm 23 March 2011. Duty on hand rolling tobacco will increase by a further 10 per cent and the Government is restructuring cigarette duty to support health objectives. This will add around 50p to a packet of economy cigarettes and 33p to premium cigarettes.
- As announced at Budget 2008 **alcohol duties** will increase by 2 per cent above RPI on 28 March 2011. From 1 October 2011 the Government will also introduce an additional duty on high strength beers, and a reduced rate of duty on lower strength beers.

6.6. *Water*

- Government intends to consult shortly on proposals to address **water affordability**. This mainly applies to the South West of England.

6.7. *Social mobility and child poverty*

- The Government's modelled tax and welfare reforms, including the measures announced today, **could reduce child poverty by up to 50,000 over the next two years**.
- The Government also announces the intention to **develop improved ways of measuring poverty**, which better capture the reality of living in poverty.

7. Other measures

Budget 2011 also announces the following policy decisions.

7.1. Local government capitalisation

In March 2011 the Government published details of the **local government capitalisation scheme** which allows UK local authorities to treat revenue costs as capital. No additional funding is being provided for this, but the Government will allow some extension of existing flexibilities to borrow or to fund spend on redundancies from capital receipts. Upfront costs will be met from a reduction in the capital DEL Reserve.

7.2. Delayed implementation of reduction in metal costs for coinage

HM Treasury has **delayed implementation of the change in metal composition** of 5p and 10p coins (announced Feb 2011). From 1 Jan 2012, 5p and 10p coins will be made from nickel-plated steel which will deliver estimated savings of £7-8 million per year from 2012-13.

Annex A Budget 2011 policy decisions

[Table 6](#) summarises the cost or yield from all Budget 2011 policy measures with a fiscal impact. This includes tax measures, NICs measures, measures affecting AME and additions to DEL.

Table 6: Budget 2011 policy decisions¹

		<i>£ million</i>				
		2011-12	2012-13	2013-14	2014-15	2015-16
Growth and Enterprise						
Corporation tax: decrease main rate to 26% in 2011-12, 25% in 2012-13, 24% in 2013-14 and 23% from 2014-15	Tax	-425	-810	-910	-1,000	-1,075
Corporation tax: interim improvements to Controlled Foreign Company rules	Tax	-55	-15	-25	-25	-25
Corporation tax: taxation of foreign branches	Tax	0	-30	-70	-80	-80
Corporation tax: corporate capital gains	Tax	5	-5	-15	-35	-55
Corporation tax: full reform to Controlled Foreign Company rules	Tax	0	-210	-540	-770	-840
Bank levy: increase first year effective rate to 0.075% and rate to 0.078% from Jan 2012	Tax	630	285	100	105	100
Enterprise Investment Scheme and Venture Capital Trusts: reform	Tax	0	-105	-115	-110	-120
R&D tax credits: increase SME rate to 200% from 2011-12 and to 225% from 2012-13	Spend	-20	-75	-105	-105	-
Capital allowances: extension of short life assets	Tax	-10	-40	-70	-100	-170
Capital allowances: extension of business premises renovation allowance	Tax	0	-5	-30	-25	-30
Business rates: Enterprise Zones	Tax	0	-20	-40	-65	-80
Business rates: one year extension of relief for small businesses from Oct 2011	Tax	-190	-185	5	0	0
Capital gains tax: increase Entrepreneurs' relief lifetime limit to £10 million	Tax	0	-50	-70	-90	-100
Science facilities: additional investment	Spend	-100	0	0	0	-
Housing and Employment						
Stamp Duty Land Tax: bulk purchasing	Tax	-70	-90	-120	-130	-150
Support for Mortgage Interest: one year extension from Jan 2012	Spend	-10	-110	-15	0	-
First Buy: support for first time buyers	Spend	-250	0	0	0	-
Enterprise Allowance: extension	Spend	-5	-15	-5	0	-
Work experience: 80,000 additional placements	Spend	-20	-20	0	0	-
University Technical Colleges: additional investment	Spend	-150	0	0	0	-
Apprenticeships: 50,000 additional places	Spend	-100	-60	-45	-5	-
Personal tax						
Personal allowance: increase by £620 in 2012-13, with adjustment to basic rate limit and no change to higher rate threshold	Tax	0	-1,050	-1,210	-1,200	-1,230
Direct taxes: switch default indexation assumption to CPI from 2012-13	Tax	0	105	235	630	1,080
Direct taxes: over index employer NICs threshold, age related allowances and other allowances	Tax	0	0	0	0	0
NICs: implement Government Actuary's 'best estimate' approach on contracted out rebates from Non-domicile taxation: reform	Tax	0	640	630	620	610
	Tax	0	0	110	70	50
Motoring tax						
Fuel duty: 1ppd reduction from 23 March 2011, removal of previously announced above RPI increases and delay RPI increases	Tax	-1,900	-1,600	-1,700	-2,100	-2,100
North Sea: increase in supplementary charge from 20% to 32% and restriction on decommissioning relief from 2011-12	Tax	1,780	2,240	2,120	2,090	1,870
Fuel duty: rural rebate	Tax	*	-5	-5	-5	-5
Vehicle excise duty: freeze rates for HGVs in 2011-	Tax	-15	-15	-15	-20	-20
Approved Mileage Allowance Payments: increase allowances from 2011-12	Tax	-35	-35	-35	-35	-35

Table 6: Budget 2011 policy decisions¹ (continued)

		<i>£ million</i>				
		2011-12	2012-13	2013-14	2014-15	2015-16
Environmental tax						
Carbon price floor: introduce from 2013-14 with £30 per tonne of CO2 target	Tax	0	0	740	1,070	1,410
Climate Change Agreements: reform	Tax	0	0	-40	-50	-50
Climate change levy exemption: supplies of gas in Northern Ireland	Tax	*	*	5	5	5
Company car tax: adjustment to rates fro 2013-14	Tax	0	0	125	130	135
Air passenger duty: defer RPI increase in 2011-12 to 2012-13	Tax	-145	0	0	0	0
Aggregates levy: postpone rate increase until 2012-13	Tax	-15	-15	-20	-20	-20
Indirect tax						
VAT: decrease low value consignment relief threshold to £15 from nov 2011	Tax	5	10	10	10	15
Tobacco duty: rebalance for cigarettes and increase for hand rolled tobacco from 2011-12	Tax	80	60	65	70	80
Avoidance, evasion and administration						
Disguised remuneration: avoidance	Tax	750	760	730	770	760
Currency for tax calculations: avoidance	Tax	60	60	60	60	60
Sale of lessor companies: avoidance	Tax	25	20	20	15	15
Leasing double allowances: avoidance	Tax	80	130	130	120	120
Stamp Duty Land Tax: avoidance	Tax	30	30	40	40	50
VAT: supply splitting using printed matter	Tax	40	50	50	50	60
VAT: fraud on imported road vehicles	Tax	0	0	125	110	105
Protection life insurance	Tax	0	0	60	90	120
Qualifying Time Deposit accounts: change to tax treatment	Tax	0	*	35	40	40
PAYE: holding security	Tax	*	5	5	5	5
Philanthropy						
Inheritance tax: reduce rate to 36% for estates with charitable donations of more than 10% from 2012-13	Tax	0	-25	-75	-125	-170
Gift Aid: small donations scheme	Spend	0	0	-50	-85	-
Other spending measures						
Housing Benefit: not introduce reductions for long term jobseekers	Spend	0	0	-105	-115	-
Disability Living Allowance: mobility components for claimants in residential care	Spend	0	-75	0	0	-
Local Housing Allowance: transitional protection for existing claimants	Spend	30	-30	0	0	-
Employment and Support Allowance Youth: abolish National Insurance concession	Spend	0	10	10	15	-
Benefit fraud: sanctions and debt recovery	Spend	0	25	45	65	-
Coinage: delay implementation of reduction in metal cost	Spend	-10	0	0	0	-
TOTAL POLICY DECISIONS		-10	-265	25	-115	335

Source: HM Treasury, [Budget 2011](#).

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

* Negligible

- Spending measures do not affect borrowing in 2015-16 as they fall within the TME assumption

Annex B Policy decisions prior to Spending Review 2010

[Table 7](#) shows the cost or yield of all measures with a fiscal impact announced prior to the Spending Review 2010 which will take effect from April 2011 or later.

Table 7: Measures announced at SR2010 or earlier which take effect from April 2011 or later

		<i>£ million</i>				
		2011-12	2012-13	2013-14	2014-15	2015-16
Measures announced at Spending Review 2010						
Contributory Employment and Support Allowance: time limit for those in the Work Related Activity Group to one year from 2012-13	Spend	0	450	815	1,100	1,180
Housing Benefit: increase age limit for shared room rate from 25 to 35 from Jan 2012	Spend	10	170	230	215	205
Total household benefit payments capped on the basis of average take-home pay for working household from 2013-14	Spend	0	0	225	270	270
Disability Living Allowance: remove mobility components for claimants in residential care from April 2013 ²	Spend	0	0	155	160	160
Savings Credit: freeze maximum award for four years from 2011-12	Spend	225	280	330	415	425
Council Tax Benefit: 10% reduction in expenditure and localisation	Tax	0	0	490	490	490
Child Benefit: remove from families with a higher rate taxpayer from January 2013	Spend	0	600	2,435	2,485	2,530
Working Tax Credit: freeze in the basic and 30 hour elements for three years from 2011-12	Spend	270	750	975	1,030	1,035
Working Tax Credit: reduce payable costs through childcare element from 80% to 70% restoring 2006 rate from 2011-12	Spend	335	350	370	390	405
Child Tax Credit: increase the child element by £30 in 2011 and £50 in 2012	Spend	-270	-695	-690	-690	-655
Working Tax Credit: increase working hours requirement for couples with children to 24 hours	Spend	0	515	510	505	515
Child and Working Tax Credits: use real time information	Spend	0	0	0	395	355
Public service pensions: increase in employee contribution rates	Spend	0	160	1,270	1,760	1,850
Renewable Heat Incentives: efficiency savings from 2011-12	Spend	5	15	45	110	180
Carbon Reduction Commitment: no recycling of revenues from 2011-12	Spend	715	735	1,010	1,040	1,080
Coinage: reduction in metal cost	Spend	0	10	10	10	10
Equitable life payments	Spend	-520	-315	-210	-100	-70
Capitalisation: support for local authority restructuring	Spend	-240	0	0	0	0
Public Works Loan Board: interest rate increase	Spend	165	330	400	465	525
TfL Metronet: replace borrowing with central government grant	Spend	352	300	200	185	0
Right to Buy: surrender full receipts to Exchequer receipts	Spend	25	30	40	40	45
Housing Revenue Account System: reform Northern Ireland Reinvestment and Reform Initiative	Spend	25	25	25	25	5
	Spend	-175	0	0	0	0

Table 7: Measures announced at SR2010 or earlier which take effect from April 2011 or later (continued)

		<i>£ million</i>				
		2011-12	2012-13	2013-14	2014-15	2015-16
Measures announced at June Budget 2010						
Corporation tax: decrease to 27% in 2011-12, 26% in 2012-13, 25% in 2013-14 and 24% from 2014-15	Tax	-430	-1,200	-2,150	-3,300	-4,100
Small Profits Rate: decrease to 20% from 2011-12	Tax	-50	-800	-1,200	-1,300	-1,400
Capital allowance: decrease main rate to 18% and special rate to 8% from 2012-13	Tax	0	600	1,600	1,700	1,700
Annual Investment Allowance: decrease to £25,000 from 2012-13	Tax	0	200	1,200	1,000	1,000
Business Rates: backdated bills in 2011-12	Tax	-70	-15	-15	-15	-15
Employers NICs: increase threshold in 2011-12	Tax	-3,100	-3,270	-3,490	-3,690	-3,890
Personal allowance: increase by £1,000 in 2011-12, with adjustment to basic rate limit and upper earnings limit	Tax	-3,340	-3,580	-3,620	-3,710	-3,820
Basic rate limit: freeze in 2013-14	Tax	0	0	370	800	760
Council Tax: reduction to receipts due to a one year freeze in 2011-12	Tax	-700	-740	-715	-775	-745
Furnished holiday lettings: reverse plans to repeal existing rules	Tax	-20	5	*	*	*
Benefits, tax credits and public service pensions: switch to CPI indexation from 2011-12	Spend	1,500	3,050	4,885	7,555	10,595
Disability Living Allowance: reform gateway from 2013-14	Spend	0	0	360	1,070	1,450
Lone parent benefits: extend conditionality to those with children aged 5 and above from Jan 2012	Spend	0	70	210	290	320
Sure Start Maternity Grant: apply to first child only from 2011-12	Spend	75	75	75	75	75
Local Housing Allowance: set at the 30th percentile of local rents from Apr 2011 with transitional protection for existing claimants ³	Spend	130	375	445	475	505
Deductions for non-dependents: reverse previous freezes on uprating and maintaining link with prices from 2011-12	Spend	70	135	195	210	215
Social sector: limit working age entitlements to reflect size of family from 2013-14	Spend	0	0	490	490	490
Switch to CPI indexation for Local housing Allowance from 2013-14	Spend	0	45	140	290	465
Additional bedroom for carers from 2011-12		-15	-15	-15	-15	-15
Local Housing Allowance: caps on maximum rate for each property size, with 4 bed limit from 2011-12 with transitional protection for existing claimants ³	Spend	35	115	145	165	185
Additional discretionary Housing Payments from 2011-12	Spend	-10	-40	-40	-40	-40
Tax credits second income threshold: reduce to £40,000 from 2011-12	Spend	130	125	125	135	145
Tax credits: first and second withdrawal rates: increase to 41% from 2011-12	Spend	645	700	730	755	780

Table 7: Measures announced at SR2010 or earlier which take effect from April 2011 or later (continued)

		<i>£ million</i>				
		2011-12	2012-13	2013-14	2014-15	2015-16
Child Tax Credit: taper the family element immediately after the child element from 2012-13	Spend	0	475	445	425	400
Child Tax Credit: remove the baby element from 2011-12	Spend	300	275	275	275	270
Working Tax Credit: remove the 50 plus element from 2012-13	Spend	0	45	50	50	55
Child Tax Credit: reverse the supplement for children aged one and two from 2012-13	Spend	0	180	180	180	180
Tax credits: reduce the income disregard from £25,000 to £10,000 for 2 years in 2011-12 then to £5,000 from 2013-14	Spend	130	165	455	540	605
Tax credits: introduce income disregard of £2,500 for falls in income in 2012-13	Spend	0	245	510	510	520
Tax credits: new claims and changes of circumstances: reduce backdating from 3 months to 1 month from 2012-13	Spend	0	345	355	360	360
Child Tax Credit: increase the child element by £150 in 2011-12 and £60 in 2012-13 above indexation	Spend	-1,220	-1,865	-1,920	-1,940	-1,965
Child Benefit: freeze rates for three years from 2011-12	Spend	385	930	1,250	1,285	1,335
Basic State pension: introduce triple guarantee from 2011-12	Spend	0	-1,130	-1,450	-1,530	-1,620
Pension Credit Minimum Income guarantee: matching basic state pension cash increase in 2011-12	Spend	-600	-630	-630	-650	-660
Measures announced before June Budget 2010						
Freeze higher rate threshold in 2012-13 (2009 Pre Budget Report)	Tax	0	590	1,310	1,260	1,340
Increase NICs primary threshold in 2011-12 (2009 Pre Budget Report)	Tax	-1,340	-1,360	1,380	1,520	1,660
Increase main employee NICs rate by 1% from 2011-12 (2009 Pre Budget Report)	Tax	3,580	3,700	3,890	4,100	4,330
Increase additional employee NICs rate by 1% from 2011-12 (2009 Pre Budget Report)	Tax	600	600	620	660	710
Increase employer NICs rate by 1% from 2011-12 (2009 Pre Budget Report)	Tax	4,580	4,690	4,930	5,200	5,490
Increase main self-employed NICs rate by 1% from 2011-12 (2009 Pre Budget Report)	Tax	220	200	200	190	180
Increase additional self-employed NICs rate by 1% from 2011-12 (2009 Pre Budget Report)	Tax	70	70	60	50	50
Pensions Tax: restrict tax relief ⁴	Tax	1,200	2,300	4,400	4,400	4,300
Auto-enrolment: slower introduction (2009 Pre Budget Report)	Tax	0	100	700	1,700	2,100
Individual savings account: indexation from 2011-12 (March Budget 2010)	Tax	-5	-15	-40	-90	-175
SDLT: properties over £1m from 2011-12 (March Budget 2010)	Tax	50	170	210	250	290
Inheritance Tax: freeze threshold from 2011-12 to 2014-15 (March Budget 2010)	Tax	50	170	295	420	505
Salary sacrifice: workplace canteens from 2011-12 (2009 Pre Budget Report)	Tax	110	110	110	110	110

Table 7: Measures announced at SR2010 or earlier which take effect from April 2011 or later (continued)

		<i>£ million</i>				
		2011-12	2012-13	2013-14	2014-15	2015-16
Seafarer's Earning Deduction (2009 Pre Budget Report)	Tax	-5	-5	-5	-5	-5
Alcohol duty: increase in rates in 2013-14 and 2014-15 (March Budget 2010)	Tax	0	0	110	215	210
Patent box from 2013-14 (2009 Pre Budget Report)	Tax	0	0	-500	-800	-900
Venture Capital Schemes: State Aid changes (2009 Pre Budget Report)	Tax	-20	-30	-40	-40	-40
Landfill tax: increase in 2014-15 (2009 Pre Budget Report)	Tax	0	0	0	70	70
Climate Change Levy: reduction of relief from 2011-12 (2009 Pre Budget Report)	Tax	40	50	50	50	55
Company Car Tax: extend bands from 2012-13 (Budget 2009)	Tax	0	120	120	125	125
Company Car Tax: changes to bands and abolition of cap from 2011-12 (Budget 2009)	Tax	85	75	70	65	65
EU Emissions Trading Scheme auctions: amendments from 2011-12 (March Budget 2010)	Tax	-10	0	0	0	0
Childcare: employer supported childcare tax relief from 2011-12 (2009 Pre Budget Report)	Tax	15	40	65	85	100
Working Tax Credit: extend eligibility for over 60s from 2011-12 (March Budget 2010)	Spend	-20	-20	-20	-20	-20

Source: HM Treasury, [Budget 2011](#)

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

2 See [Budget 2011](#) paragraph 2.63

3 See [Budget 2011](#) paragraph 2.62

4 See [Budget 2011](#) paragraph 2.51

* Negligible

