Background to the 2011 Budget

Standard Note: SN/EP/5895
Last updated: 18 March 2011
Author: See list of contributors below
Section Economic Policy and Statistics Section
Business and Transport Section

This note sets out the background to the 2011 Budget which will take place on 23 March. The independent Office for Budget Responsibility (OBR) will publish updated forecasts for the economy and public finances on the same day.

The Library will publish an extra edition of Economic Indicators on 22 March – the day before the Budget.

A separate note summarises the main Budget announcements, reaction to them, and the OBR's revised forecasts.

Contributors:

Grahame Allen, The economy
Daniel Harari, Employment and unemployment
Lucinda Maer, Oil prices and fuel duty
Adam Mellows-Facer, Growth policies
Mark Sandford, Media coverage of the budget
Antony Seely, Tax policy
Dominic Webb, Public finances

Contents

1 Introduction

Reducing the deficit is the Government's top priority. The Government's first Budget, in June last year, announced a range of significant changes to taxation and public spending, such as increasing the rate of VAT to 20% and increasing the income tax personal allowance by £1,000. The Budget also announced large cuts in public spending. The Government has also accepted some changes which were planned by the Labour Government, such as the increase in national insurance rates and the increases in petrol duty introduced in October and January. The Government claims that many of the cuts in public spending would have been made by a Labour Government. The Opposition disputes this claim.

The focus of this year's Budget looks likely to be different. It is widely expected that the Government will introduce policies to promote economic growth. Measures to address motorists' concerns about high fuel prices are also expected to feature.

The independent Office for Budget Responsibility (OBR) will publish revised forecasts for the economy and public finances. Based on data for the first ten months of the financial year, the budget deficit looks likely to be lower than the forecast made by the OBR in November. The OBR's view on the economic outlook will be of particular interest. The UK economy contracted in the fourth quarter of 2010 for the first time since 2009, Q3 . It remains to be seen whether this was a weather-related blip or the start of a more significant slowdown. In addition, the oil price has increased significantly since the turn of the year. This could pose a risk to both growth and inflation and also put pressure on the public finances.

This note is organised as follows. Section 2 looks at the recent performance of the UK economy and forecasts for the next few years. It considers GDP growth, inflation and development in the labour market.

Section 3 considers the public finances. It discusses the Government's target for fiscal policy and provides data on public borrowing and debt. This section also looks at the recent increase in oil prices and the debate around fuel duty.

Section 4 examines the Government's policies for growth

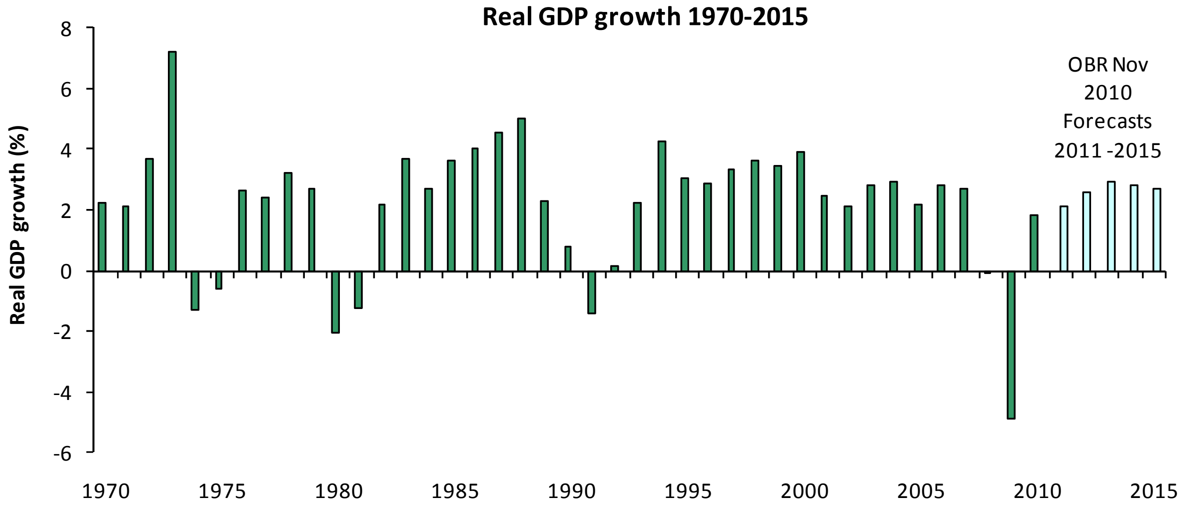
Section 5 relates to the Government's tax policy. It explains the taxation measures taken so far by the Government.

Section 6 gives a brief summary of some of the areas which the media have suggested may be included in the Budget.

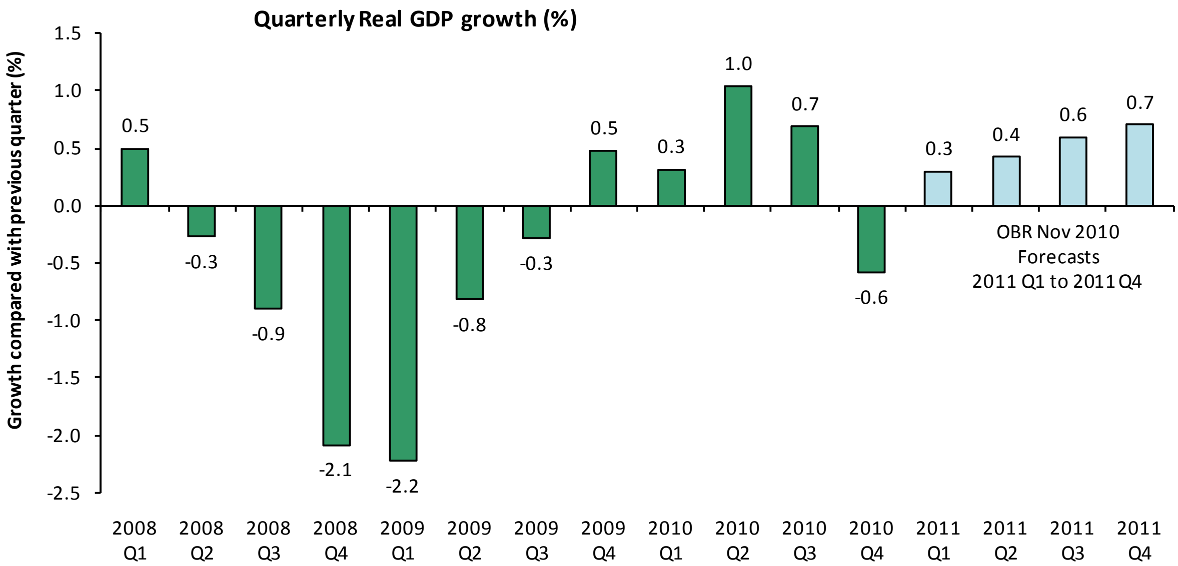
2 The economy

2.1 GDP

The past few years have been very challenging for the UK economy. In 2009 as a whole, the economy saw the sharpest fall in GDP (-4.9%) in a calendar year since official figures began in 1949 and the highest fall since 1931, excluding the recession following the Second World War. Though the economy recovered in 2010, the future path of the UK economy is far from certain.



The economy moved into recession in 2008 Q3 as GDP fell for a second successive quarter. The economy moved out of recession in the last quarter of 2009, following six consecutive quarters of negative growth. The recent path of economic growth is shown in the chart below:



The table below shows contributions to estimated GDP growth in each of the four quarters of 2010 by expenditure component of GDP.

Quarter-on-quarter growth of the expenditure components of GDP

	2010 Q1	2010 Q2	2010 Q3	2010 Q4
Final Consumption Expenditure				
Households	0.0	0.3	0.0	-0.1
Non Profit Institutions Serving Households	0.0	0.0	0.0	0.0
General Government	0.1	0.1	-0.1	0.2
Gross Capital Formation	**1.3**	**0.5**	**0.8**	**-0.4**
of which Gross Fixed Capital Formation	0.5	0.2	0.6	-0.4
Exports	-0.2	0.8	0.5	0.6
Imports	-0.6	-0.6	-0.5	-0.9
Net trade	**-0.8**	**0.3**	**0.0**	**-0.3**
GDP	**0.3**	**1.0**	**0.7**	**-0.6**

Source: ONS, UK output, income and expenditure, Q4 2010, 25 February 2011

The latest estimates of GDP for Q4 2010 suggest that net trade and investment each made a negative contribution to GDP growth, resulting in an overall contraction.

Forecasts of future growth

For the June 2010 Budget, the interim OBR forecast real GDP growth in 2011 of 2.3%. It was more optimistic for 2012 and 2013 with forecasts of 2.8% and 2.9% respectively: [1]

> GDP growth rises from 2010, reaching 2.9 per cent in 2013. Growth then eases in 2014 and 2015 as demographic changes reduce the growth of the potential labour supply, though actual growth remains above trend.
>
> In the near term, economic activity is weaker than in the pre-Budget forecast. On the demand side this reflects Budget measures which restrain government spending and real household disposable income, holding back consumer demand. In 2010 as a whole GDP is forecast to rise by 1.2 per cent followed by 2.3 per cent in 2011 (against 1.3 per cent and 2.6 per cent in the pre-Budget forecast). From 2012 onwards GDP growth recovers as prices and wages adjust and monetary policy continues to support demand. Compared with the pre-Budget forecast, growth is stronger from 2013 onwards as the economy adjusts back towards potential output. By the end of the forecast the adjustment is still not quite complete, so that the output gap is slightly larger in 2014 than it was in the pre-Budget forecast

The OBR's revised forecasts, from November 2010, suggest that the economy will grow more slowly over the next couple of years, by 2.1% 2011, 2.6% in 2012 and 2.9% in 2013:

OBR November 2010 forecasts

	2011	2012	2013
GDP growth, %	2.1	2.6	2.9
CPI inflation, %	3.0	1.9	2.0

Source: OBR, *Economic and Fiscal Outlook* , Nov 2010, Table 3.8

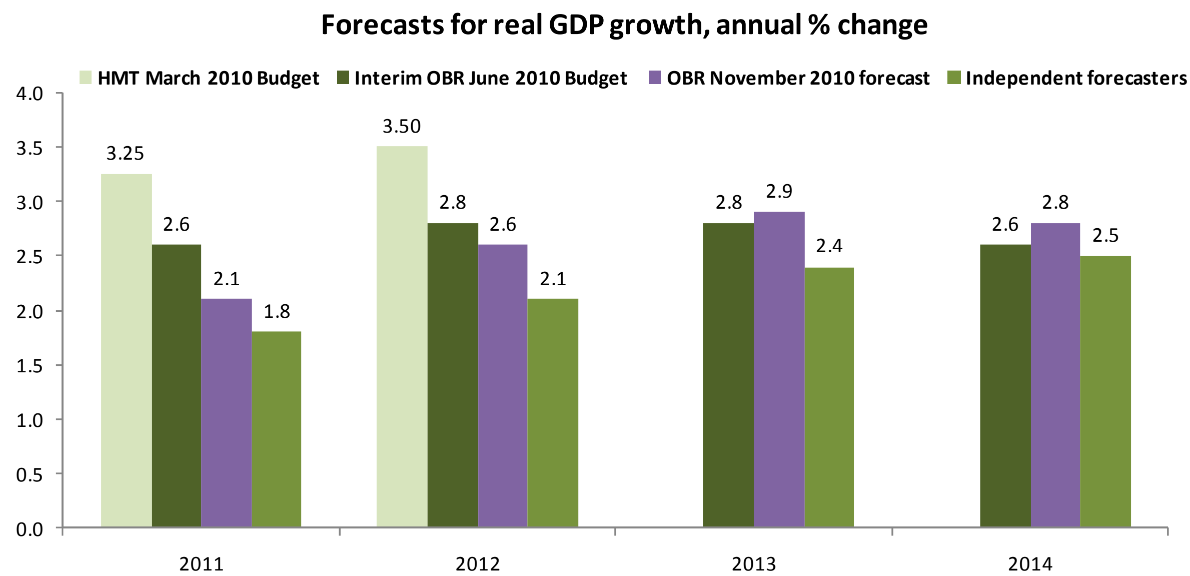
Commenting on the revisions, the OBR suggests that:[2]

1 OBR, *2010 Budget forecast*, June 2010
2 OBR, *Economic and Fiscal Outlook*, Nov 2010, para 3.3

Compared to the interim OBR's June forecast we have increased our expectation of GDP growth this year and reduced it for 2011. We believe that the unexpected strength of GDP growth in the second and third quarters of 2010 was largely a timing effect, with firms rebuilding stocks more quickly than seemed likely in June. That said, we do expect some of the recent strength to persist and have therefore revised up slightly the expected level of GDP across the forecast horizon. Key judgements in our central forecast include that:

- the trend rate of growth is projected to be 2.35 per cent, falling back to 2.10 per cent from 2014 due to demographic effects. This is unchanged from the assessment made by the interim OBR;

The chart below compares the Treasury's March 2010 Budget forecasts with the interim OBR's June 2010 Budget forecast, the average of independent forecasters and the OBR's November 2010 forecast. However, the range of forecasts may say more about when they were made rather than their accuracy (the Treasury's forecasts are now particularly outdated):[3]



The OECD's latest forecasts for the UK, published in March, are for growth of 1.5% this year and 2.0% in 2012.[4] This is lower than its previous forecast of 1.7% for 2011 published in December. The forecast for the UK is below the OECD averages of 2.3% and 2.8% for 2011 and 2012:

[3] The independent forecasts for 2011 and 2012 are from the March edition of the Treasury's *Forecasts for the UK economy*. The forecasts for 2013 and 2014 are from the Nov 2010 edition.

[4] OECD, *Economic Surveys*: United Kingdom, March 2011

OECD forecasts for real GDP growth, %

	2011	2012
UK	1.5	2.0
Canada	2.3	3.0
France	1.6	2.0
Germany	2.5	2.2
Italy	1.3	1.6
Japan	1.7	1.3
US	2.2	3.1
Euro area	1.7	2.0
Total OECD	2.3	2.8

Note: *UK forecasts from March, others from December*

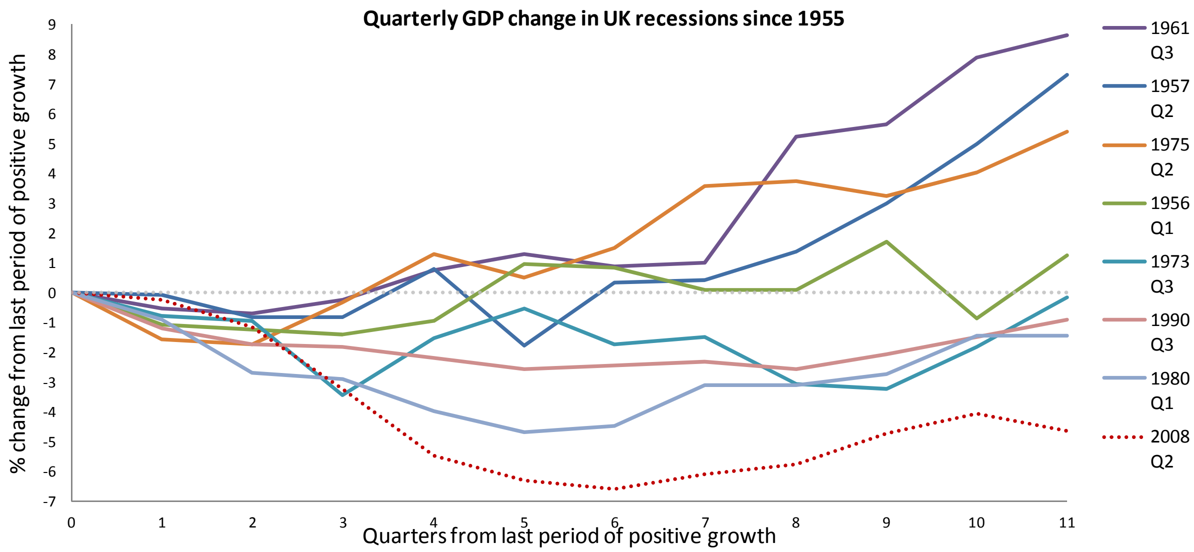
Source: OECD, *Economic Outlook, December* 2010
OECD, *Economic Survey of the UK 2011*

The OECD's recent survey of the UK economy commented as follows:

> The broad based recovery that started in end-2009 slowed in the second half of 2010. The recovery is likely to remain subdued in 2011, as the necessary fiscal tightening and a fading rebound in world trade create headwinds, before picking up again in 2012. With general government net lending close to 11% of GDP in 2009, a substantial tightening was vital to achieve a sustainable fiscal position and reassure investors. Fiscal consolidation will impact significantly on government consumption, investment and household income growth in 2011-12.[5]

Comparison with previous recessions

The chart below compares the path of UK GDP growth during (and following) the latest recession with previous recessions. The chart shows that the 2008/9 recession was the 'deepest' recession (in terms of lost output) in the UK since quarterly data were first published in 1955.



5 OECD Economic Survey of the United Kingdom, March 2011, p11

International comparisons of recessions

The downturn in economic activity was been felt across the world, with many countries, including all G7 economies, falling into recession during 2008. All G7 countries have since exited (at least temporarily).

Apart from its length, the severity of the downturn can also be measured by the decline in economic output that occurred during the recession. The table below summarises some features of the recessions in the G7 countries:

G7 recessions

	Recession			
	Entered(a)	Exited	Length, qtrs(b)	decline in GDP(c)
Canada (d)	Q1 2008	Q3 2009	6	-3.4%
France	Q2 2008	Q2 2009	4	-3.9%
Germany	Q2 2008	Q2 2009	4	-6.6%
Italy	Q2 2008	Q3 2009	5	-6.8%
Japan	Q2 2008	Q2 2009	4	-10.0%
UK	Q2 2008	Q4 2009	6	-6.4%
US	Q3 2008	Q3 2009	4	-3.7%

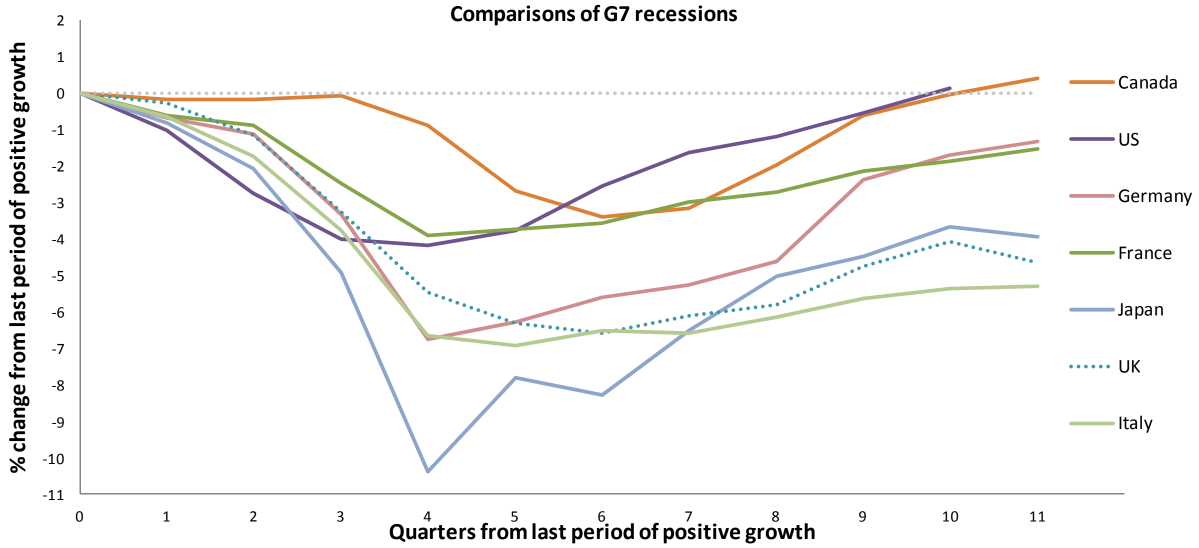
Source: OECD, *Quarterly National Accounts*

Notes: (a) First quarter of contraction
(b) Total number of quarters of negative growth.
(c) From pre-recession levels
(d) Double -dip recession

The UK remained in recession longer than the other G7 economies, with output declining for six consecutive quarters. Canada's 'double-dip' recession saw two periods of negative growth starting in Q1 2008, a single period of positive growth in Q3 2008, and three further quarters of declining output until exiting recession in Q3 2009. Japan, Germany and France came out of recession in Q2 2009, with the US and Italy exiting in Q3. The UK came out of recession in Q4 2009. However, by comparing OECD data, which shows the decline in GDP from pre-recession levels, the UK's 6.4% contraction was less severe than Japan's (-10.0%), Italy's (-6.8%) and Germany's (-6.6%). The US, France and Canada all experienced a decline in GDP of less than 4% during their recessions.

The chart below tracks the path of GDP growth in the G7 economies during and since their recessions. The chart suggests that amongst the G7, so far at least, GDP has returned to pre-recession levels only in Canada and the US.[6]

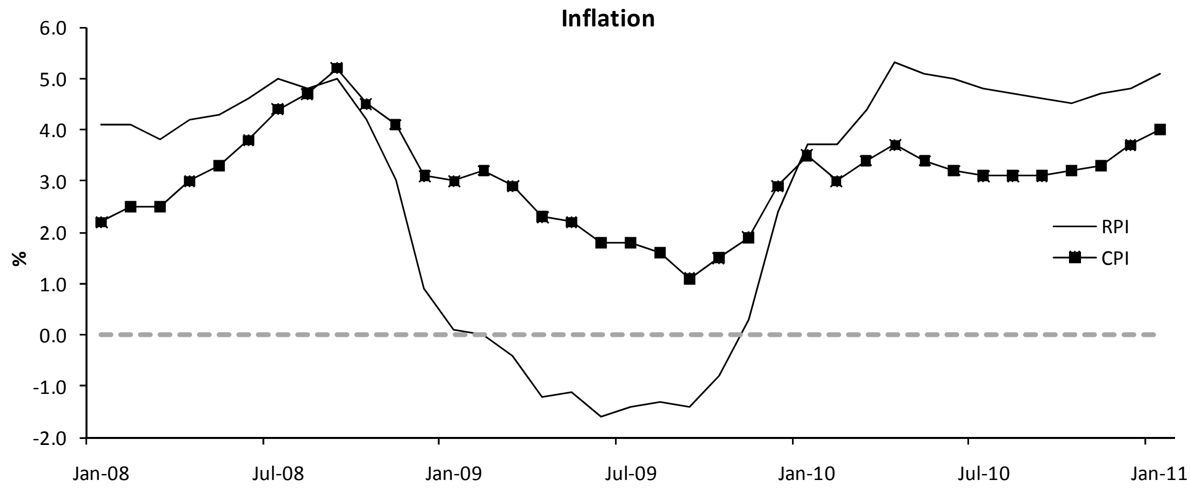
[6] Please note that not all countries' recessions started in the same quarter.



The chart also shows that of the G7, only Italy's recovery of lost output lags behind that of the UK, However, the impact on the Japanese economy from the recent natural disaster suggest that Japan too may take longer than the UK economy to recover lost output.

2.2 Inflation

Retail prices index (RPI) inflation remained negative (deflation) for most of 2009 but inflation rose sharply thereafter, measured by both the RPI and the consumer prices index (CPI): RPI inflation rose from -1.6% in June 2009 to 5.1% in May 2010. After falling back during 2010, in January 2011 it returned to 5.1%. CPI inflation has increased from 1.8% to 4.0% over the same period. The steep rise in inflation has been mainly due to the January 2010 and 2011 increase in the standard rate of VAT, higher food and oil costs and the continued increase in transport costs. Inflation figures for February 2011 will be published on 22 March and will be included in the edition of the Library's Economic Indicators paper which will be published on that day.



Most forecasters expect RPI inflation to remain high for the immediate future as the impact of the VAT increase to 20% and high oil and food import prices remain. However, CPI inflation is expected to fall in as these effects subside and spare capacity in the economy persists.

The OBR in its November 2010 forecasts (see section above) suggest that CPI inflation will be 3.0% in 2011, falling back to 1.9% in 2012. The OECD forecasts CPI inflation in the UK of 3.3% this year and 1.8% next year, higher than in the other G7 countries:

OECD forecasts for inflation, %

	2011	2012
UK (CPI)	3.3	1.8
Canada	1.7	1.5
France	1.1	1.1
Germany	1.2	1.4
Italy	1.4	1.4
Japan	-0.8	-0.5
US	1.1	1.1
Euro area	1.3	1.2

Note: *UK forecasts from March, others from December*

Source: OECD, *Economic Outlook, December* 2010
OECD, *Economic Survey of the UK 2011*

2.3 Unemployment

Unemployment stood at 2.53 million in the three months to January 2011, up 27,000 from the last quarter and up 87,000 from a year earlier.[7] The unemployment rate is 8.0%, 0.1 percentage points higher than in the last quarter, and 0.2 percentage points higher than the same period a year ago.

The OBR's latest forecasts from November 2010 expect the unemployment rate to average 8.0% in 2011 and 7.7% in 2012. In subsequent years the OBR forecasts unemployment to fall at a faster pace to 7.2% in 2013, 6.7% in 2014 and 6.1% in 2015.[8]

In comparison, latest OECD forecasts from March 2011 expect the UK unemployment rate to average 7.7% in 2011 and 7.5% in 2012. Compared with other G7 economies, the OECD forecasts UK unemployment to be lower than in the US, France and Italy, but higher compared with Germany and Japan. UK forecasts were published in March while those for the other countries are from December 2010.

[7] Based on the ILO definition of unemployment. Source: ONS, *Labour Market Statistics June 2010*
[8] OBR, *Economic and fiscal outlook*, November 2010

OECD forecasts for unemployment, %

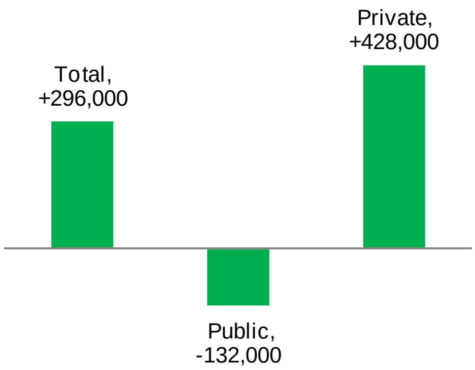
	2011	2012
UK	7.7	7.5
Canada	7.8	7.4
France	9.1	8.8
Germany	6.3	6.2
Italy	8.5	8.3
Japan	4.9	4.5
US	9.5	8.7
Euro area	9.6	9.2
Total OECD	8.1	7.5

Note: UK forecasts published in March, all others are from December
Source: OECD, Economic survey of the UK 2011, Econ Outlook, Dec 2010

2.4 Public and private sector employment

Employment in the public sector fell by 45,000 over the last quarter to 6.2 million (December 2010), while employment in the private sector rose by 77,000 to 23.0 million. Over the last year public sector employment has fallen by 132,000 (-2.1%) while private sector employment has increased by 428,000 (+1.9%).

Employment in public & private sectors, annual change to December 2010

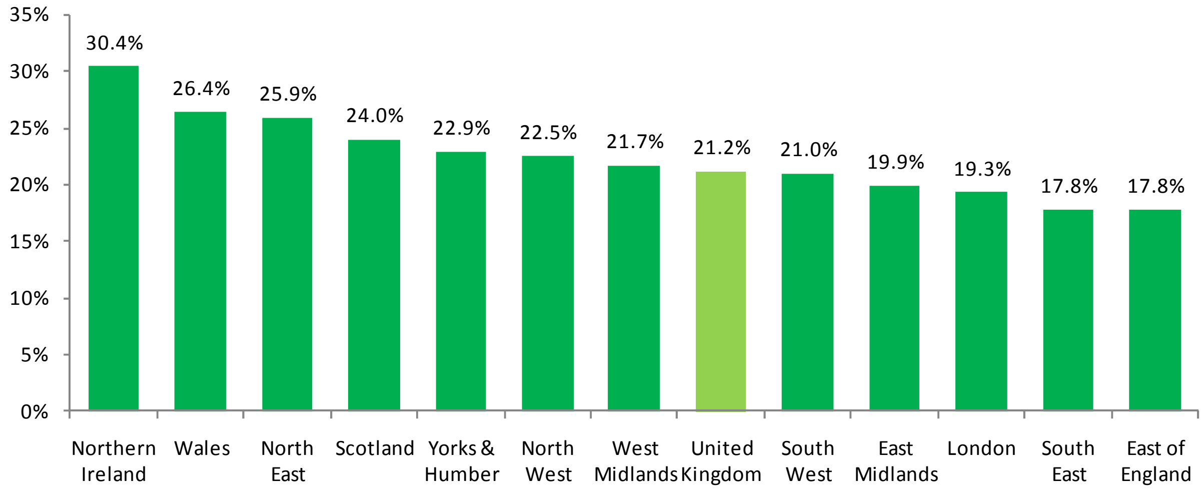


The OBR in November 2010 forecasted general government employment (public sector excluding public corporations) to fall by 330,000 between 2010/11 and 2014/15. So far in 2010/11 general government employment has fallen by 91,000. [9]

In the UK 21.2% of total employment is in the public sector. Northern Ireland has the highest proportion of public sector employment (30.4%) while the East of England has the lowest (17.8%). The proportion of people in employment in the public sector by region of the UK is shown in the chart below. This gives some indication of the areas potentially most at risk from cuts in public sector employment.[10]

9 ONS, *Public sector employment*, March 2011
10 Public sector employment includes those employed in publically owned financial institutions such as RBS, Lloyds and Northern Rock.

Public sector employment as a % of total employment, Q4 2010



Source: ONS, data not seasonally adjusted

3 The public finances

3.1 The budget deficit

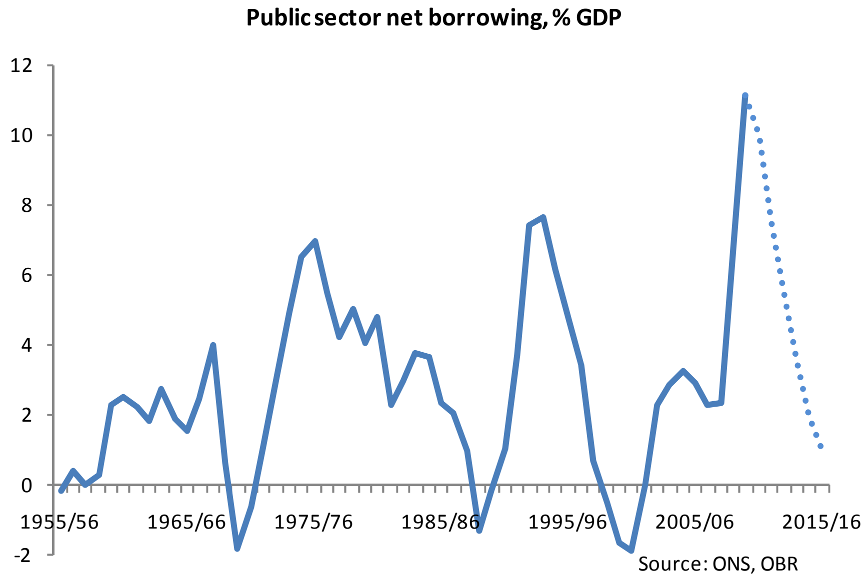
The Government has said that reducing the deficit is the most urgent task facing the country. In its view reducing the deficit is necessary for sustained economic growth. The budget deficit in 2009/10 was £156 billion (11.1% of GDP), an exceptionally high level by historical standards.[11] The Government announced a range of tax increases, such as the increase in VAT, and implemented the increase in national insurance planned by the previous government. It has also announced a series of spending cuts. In a recent report, the OECD commended this approach:

> The fiscal position was weak coming into the recession and worsened rapidly as output dropped and the deficit reached almost 11% of GDP in 2009. In 2010 the fiscal situation started to improve, with temporary support measures ending, initial steps towards fiscal consolidation taken and growth resuming. The government has stepped up the pace of consolidation which has significantly dampened fiscal risks. Altogether, fiscal consolidation, measured as the improvement in the cyclically-adjusted balance, amounting to 8.5% of GDP is planned between 2009/10 and 2015/16. Net debt in relation to GDP is predicted to peak at just below 70%. While fiscal risks remain, the announcement and initial implementation of the consolidation programme strikes the right balance between addressing fiscal sustainability and thereby reducing tail-risks on the one hand, and preserving short-term growth on the other.
>
> Although the government is undertaking significant reforms, the economic efficiency of the tax and spending system could be improved. The United Kingdom has one of the least efficient VAT systems in the OECD, reflecting widespread application of reduced and zero rates. The VAT system became even more unbalanced when the standard rate was increased from 17.5% to 20% in January 2011 while low rates and exemptions remained unchanged. Ending exemptions and increasing lower rates would provide a more efficient system and raise more revenues, while targeted measures should be directed at compensating poorer households. [...] Although the government has tried to focus public investment on projects with high economic

[11] All the public finance figures in this note exclude the effect of financial sector interventions.

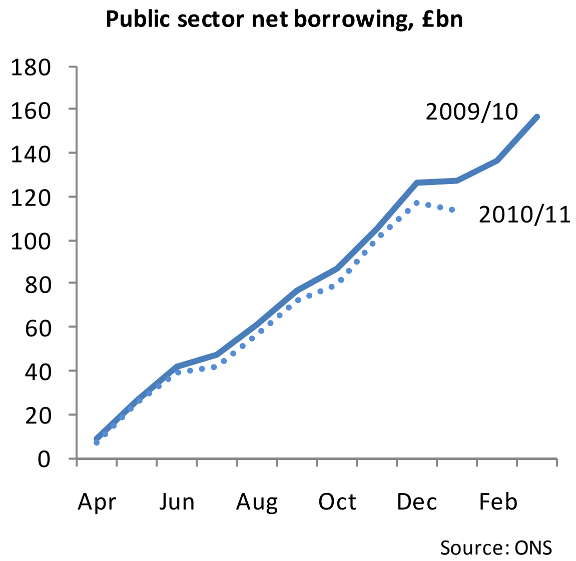
returns, the large cuts in public investment are a risk to long-term growth. Channelling more resources to public investment would be warranted, as long as projects offer a viable rate of return.[12]

The deficit has grown rapidly since the financial crisis. In 2007/08, it was £34 billion or 2.4% of GDP.



Forecasts for the budget deficit

The OBR forecast that borrowing would be £148.5 billion in 2010/11, down from £156.4 billion in 2009/10. Figures for the first ten months of 2010/11 allow us to assess whether the public finances are on course to meet this forecast. Over this period, public sector net borrowing was £113.0 billion. This is 11.2% lower than the level over the same period in 2009/10. These trends are shown in the chart below.



[12] OECD, *Economic Surveys*: United Kingdom, March 2011 p12

Public finance figures for February will be published on 22 March. These data will be included in the Budget edition of the Library's Economic Indicators paper.

The OBR forecast that borrowing will fall to 1.0% of GDP by 2015/16. The IFS forecasts are slightly lower. The OBR and IFS forecasts for government borrowing are shown in the table below.

Public sector net borrowing

	Outturn £bn	OBR forecast £bn	IFS forecast £bn	Outturn % GDP	OBR forecast % GDP	IFS forecast % GDP
2006/07	30.9	..	..	2.3	..	..
2007/08	33.7	..	..	2.4	..	..
2008/09	96.4	..	..	6.7	..	..
2009/10	156.4	..	..	11.1	..	..
2010/11	..	148.5	145.6	..	10.0	9.8
2011/12	..	117.0	115.6	..	7.6	7.5
2012/13	..	91.0	90.5	..	5.6	5.6
2013/14	..	60.0	59.2	..	3.5	3.4
2014/15	..	35.0	34.1	..	1.9	1.9
2015/16	..	18.0	14.6	..	1.0	0.8

Sources: ONS, Public sector finances Statistical Bulletin, Jan 2011
OBR, Economic and fiscal outlook, November 2010, Table 4.23
IFS Green Budget 2011, Table 5.4 and 5.5

The UK's budget deficit is forecast to be the second highest of the OECD countries in 2011, lower than Ireland and equal to the US (see chart in Annex 2). This is based on the OECD's March 2011 forecast for the UK and December forecasts for the other countries.

3.2 The structural deficit

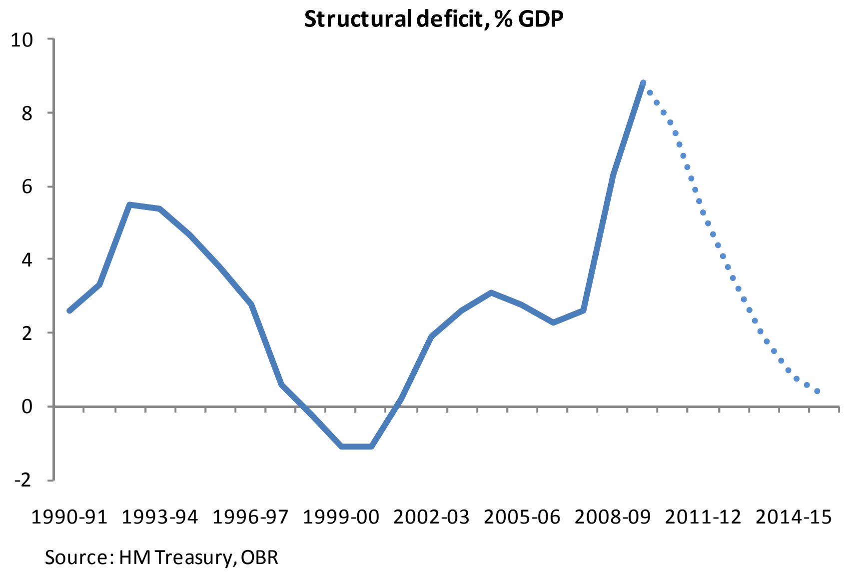
A distinction is often drawn between the "cyclical" and "structural" elements of the budget deficit:

- **Cyclical** elements of the deficit refer to the effect of the economic cycle on the level of government borrowing. In a recession, government borrowing tends to increase as tax receipts are reduced and spending on unemployment benefit increases. The reverse happens when the economy is growing strongly. These effects are sometimes known as the economy's "automatic stabilisers".

- **Structural** elements of the deficit refer to underlying or persistent elements of government borrowing which are unrelated to the economic cycle. The structural deficit is measured by cyclically-adjusted measures of borrowing.

The distinction is important as the "headline" borrowing figures may mask underlying trends unless the economy's position in the economic cycle is taken into consideration. It should be pointed out, however, that estimating how much of the deficit is cyclical and how much is structural is far from easy. This requires an assessment of where the economy is in the economic cycle. It can be difficult to determine where the economy is in relation to its "trend" level of output. This is particularly the case when the economy is coming out of recession as it requires a calculation of how much of the lost output is purely cyclical and how much is permanent. These problems mean that estimates of the structural deficit need to be treated with a degree of caution.

The structural deficit was around 2-3% of GDP immediately before the financial crisis. It then increased to 6.3% in 2008/09 and 8.8% in 2009/10. It is forecast to fall to 0.3% of GDP by 2015/16 by the OBR. The IFS forecasts for the structural deficit are similar.



Structural deficit

Cyclically-adjusted public sector net borrowing

% GDP

	Outturn	OBR forecast	IFS forecast
2006-07	2.3	..	..
2007-08	2.6	..	..
2008-09	6.3	..	..
2009-10	8.8	..	..
2010-11	..	7.6	7.4
2011-12	..	5.3	5.2
2012-13	..	3.5	3.5
2013-14	..	1.9	1.8
2014-15	..	0.8	0.7
2015-16	..	0.3	0.1

Sources: HM Treasury, Public finances databank
OBR Economic and fiscal forecast, November 2010, Table 4.23
IFS Green Budget, Table 5.5

The figures above adjust public sector net borrowing for the cycle. Figures are also published for the cyclically-adjusted *current* balance. These look at the government budget position, excluding capital investment. The current balance is of interest as it is often argued that it is reasonable for the government to borrow to fund investment spending. Future generations will have to pay for this borrowing but they will also benefit from the capital spending. The current balance thus measures whether the Government can pay for current expenditure (including depreciation). The cyclically-adjusted current balance is the measure used for the Government's fiscal mandate (see section 3.4 below). Figures for the current balance show receipts less expenditure. A positive figure therefore means a surplus and a negative figure a deficit.

Cyclically-adjusted current balance

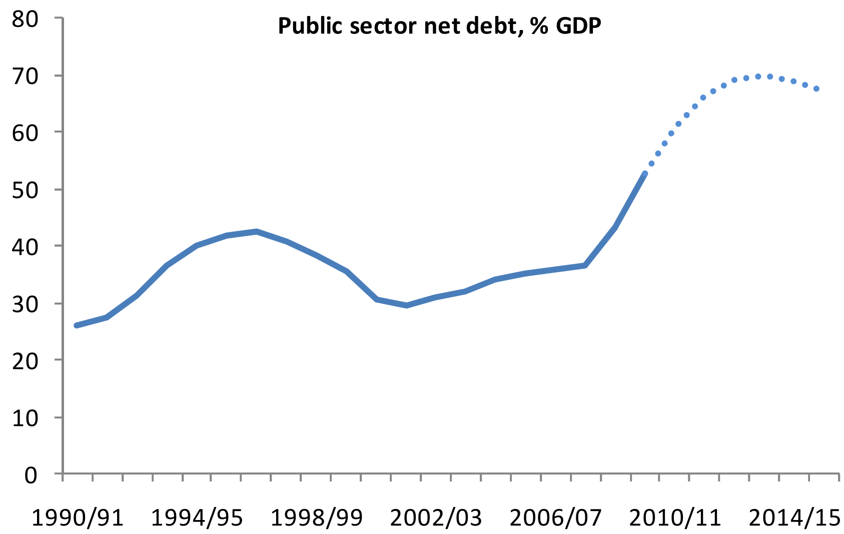
(+ve figures indicate surplus, -ve deficit)

	Outturn	OBR forecast	IFS forecast
	% GDP	% GDP	% GDP
2006/07	-0.4	..	..
2007/08	-0.6	..	..
2008/09	-3.1	..	..
2009/10	-5.3	..	..
2010/11	..	-4.7	-4.5
2011/12	..	-3.3	-3.2
2012/13	..	-1.8	-1.8
2013/14	..	-0.5	-0.4
2014/15	..	0.5	0.6
2015/16	..	0.9	1.1

Sources: ONS, Public sector finances databank, Table A1
OBR, Economic and fiscal outlook, November 2010, Table 4.23
IFS Green Budget 2011, Table 5.5

3.3 Public sector net debt

Public sector net debt was £759.5 billion in 2009/10 (52.7% of GDP). This is a significant increase on its pre-crisis level: in 2006/07, debt was just below £500 billion (35.9% of GDP). In November, the OBR forecast that public sector debt would continue to increase as a share of GDP reaching nearly 70% of GDP in 2013/14 before falling to 67.2% of GDP in 2015/16.



Source: ONS and OBR

The Government's target is for debt to be falling as a share of GDP in 2015/16. This target is met a year early as debt is projected to fall as a share of GDP in both 2014/15 and 2015/16 on both the OBR's current forecasts and the IFS Green Budget forecasts.

Public sector net debt

	Outturn £bn	OBR forecast £bn	Outturn % GDP	OBR forecast % GDP	IFS forecast % GDP
2006/07	497.8	..	35.9	..	..
2007/08	527.2	..	36.5	..	..
2008/09	606.3	..	43.3	..	..
2009/10	759.5	..	52.7	..	..
2010/11	..	922.9	..	60.8	60.6
2011/12	..	1,052	..	66.3	66.0
2012/13	..	1,157	..	69.1	68.8
2013/14	..	1,232	..	69.7	69.3
2014/15	..	1,284	..	68.8	68.4
2015/16	..	1,320	..	67.2	66.7

Sources: ONS, Public sector finances Statistical Bulletin, Jan 2011
OBR, Economic and fiscal outlook, November 2010, Table 4.23
IFS Green Budget 2011, Table 5.4 and 5.5

Debt interest payments are forecast to increase from £42.7 billion in 2010/11 to £63.1 billion in 2015/16.

The UK's debt level is forecast to be slightly below the OECD average and the Euro area average in 2011. It is, however, the tenth highest of the 30 countries for which the OECD provides data. A chart in Appendix 2 shows the forecast for OECD countries.

3.4 The fiscal mandate

The Chancellor announced the fiscal mandate in the June 2010 Budget:

> 1.15 The Budget announces the Government's forward-looking fiscal mandate to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period. At this Budget, the end of the forecast period is 2015-16.
>
> 1.16 At this time of rapidly rising debt, the fiscal mandate will be supplemented by a target for public sector net debt as a percentage of GDP to be falling at a fixed date of 2015-16, ensuring that the public finances are restored to a sustainable path. The Government has asked the OBR to assess whether policy is consistent with a greater than 50 per cent chance of meeting the target for debt.
>
> 1.17 This fiscal mandate, supplemented by the target for debt, will guide fiscal policy decisions over the medium term, ensuring that the Government sets plans consistent with accelerating the reduction in the structural deficit so that debt as a percentage of GDP is restored to a sustainable, downward path. This will help reduce the risk of

pushing up long-term interest rates and provide scope to absorb the impact of future economic shocks.[13]

This framework replaces the fiscal rules adopted by the previous Government and the targets imposed by the *Fiscal Responsibility Act 2010*. The previous Government's two fiscal rules were:

> The golden rule: over the economic cycle, the current budget will balance, ie the government will borrow only to fund investment, not current spending.
>
> The sustainable investment rule: public sector debt will be kept below 40% of GDP.

There are some similarities between these rules and the new fiscal mandate. For example, both look at the current balance and both allow for borrowing to fluctuate with the economic cycle. The new framework aims to avoid some of the criticisms of the previous arrangements. The previous Government was accused of "moving the goalposts" to make it easier to meet the rules. The IFS commented:

> As Mr Brown's hopes of continued surpluses were dashed and deficits began to mount up, the exact method of calculating the cumulative budget balance and the precise dating of the cycle became increasingly important in determining whether or not the golden rule was on course to be met – and, if so, with what degree of comfort. Changes were made that increased the extent to which the public finances could be claimed to be on course to meet the golden rule:
>
> - First, the methodology employed to calculate cumulative current budget surpluses that Mr Brown reported in his Budget Speeches was modified.
> - Second, the estimated start date for the economic cycle was moved by two years at precisely the point at which, without this change, the government looked on course to break rather than meet the golden rule.
> - Third, in evidence to the Treasury Select Committee, Treasury officials left open the option of dropping the approach of counting the last year of one economic cycle as the first year of the next economic cycle.
>
> All of these changes could be justified in their own right. But the fact that they all made it easier to meet the golden rule at convenient times undermined the credibility of the policy framework and created suspicion that Mr Brown would 'move the goalposts' rather than face the embarrassment of missing this target.[14]

Under the new framework, the OBR will assess the economy's position in the economic cycle.

In addition, the previous Government's rules were backward looking, especially at the end of the cycle. In its January 2009 *Green Budget*, the IFS commented:

> picking any fixed period over which to judge the rule means that the amount the government can borrow towards the end of the period is determined by what it has borrowed earlier on. Policy becomes backward-looking as the Chancellor is potentially constrained to compensate for the policy and forecasting errors of the past rather than setting what is necessarily the most sensible policy looking forward.[15]

---

13 HM Treasury, Budget 2010, June 2010, paras 1.15 – 1.17
14 IFS, "The fiscal rules and policy framework" p86, in *The IFS Green Budget*, January 2009
15 IFS, "The fiscal rules and policy framework" p85, in *The IFS Green Budget*, January 2009

The new mandate is more forward-looking requiring cyclically-adjusted balance by the end of a five year rolling period. The IFS has described the forward-looking nature of the new mandate as a "welcome improvement". It has, however, noted that a problem with this formulation of the rule is that, strictly speaking, it relates only to forecasts rather than outturns. As the IFS observes:

> Under the current formulation of the new borrowing rule, a government that continually promised to tighten in future, but never delivered on those promises, would not technically be judged to be breaking the rule. The government has indicated that, once the public finances are closer to balance – presumably towards the end of the current forecasting horizon – the period over which the rule is judged could be shortened. This would reduce the scope for this problem to materialise, but it would not eliminate it. Furthermore, government plans may quickly lose credibility if they were seen continually to promise but never deliver future pain. Careful independent scrutiny of the government's management of the public finances – aided by the increase in transparency and credibility of the official forecasts associated with the introduction of the OBR ... – will help police a forward-looking rule (with all its attendant benefits) so that any government did not inappropriately manipulate such a target.[16]

The Government has said that the design of the current fiscal mandate reflects the current fiscal environment. The fiscal mandate may change once the levels of borrowing and debt have been reduced:

> The choices of a five-year rolling forecast period for the fiscal mandate, supplemented by the fixed date for the debt target, reflect the exceptional environment in which the Government must address the fiscal challenge. They are designed to ensure that fiscal consolidation is delivered over a realistic and credible timescale. Once the public finances are closer to balance the period over which cyclically-adjusted current balance must be achieved could safely be shortened in order to create a tighter constraint. In addition, once the exceptional rise in debt has been addressed, a new target for debt as a percentage of GDP will be set, taking account of the OBR's assessment of the long-term sustainability of the public finances.[17]

In its November report, the OBR found that the Government's fiscal targets would be met a year early. On the OBR's central forecast, cyclically-adjusted budget will move into surplus in 2014/15 – a year ahead of target. Public sector net debt is forecast to fall as a share of GDP in 2014/15, again a year ahead of the target.

3.5 Oil prices and fuel duty

As political upheaval has spread across North Africa oil prices have risen. However, it is arguably the fear of additional disruption that has driven recent oil price rises in financial markets. Increased demand for oil now in expectation of possible price rises in the future acts to increase the price now. Fears over potential political uncertainty in Saudi Arabia, the world's biggest exporter of oil, have a bigger impact on international prices than political chaos in Libya.

The potential for a serious oil price shock is, however, limited by a number of factors. Disruptions in actual supply have so far been small, and Saudi Arabia has responded to the recent jump in oil prices by announcing that it intends to increase supply with others following suit. Some comparisons have been drawn to the effects of previous events in the Middle

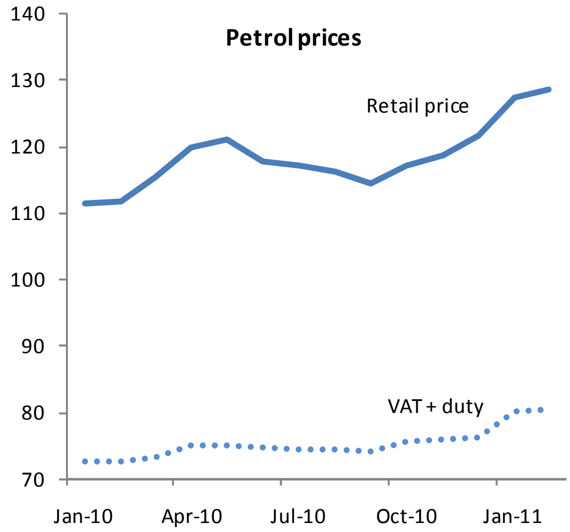
---

[16] IFS, "The new fiscal framework: an assessment", pp39-40 in *The IFS Green Budget*, February 2011. There is a more detailed discussion of the Government's new fiscal rules on pp38-51.

[17] HM Treasury, Budget 2010, June 2010, paras 1.24

East on the oil price. However, stockpiles are greater than those held prior to previous crises and efficiency gains mean developed countries do not require the levels of oil per unit of GDP needed in the past.

Petrol and diesel prices have increased sharply over the last year. In February 2011, a litre of unleaded petrol cost 128.7 pence: 15% higher than February 2010. This increase has been caused by a number of factors including increases in the oil price, the increase in VAT and the increase in fuel duty. 62.5% of the retail price of petrol is accounted for by duty (58.95p) and VAT (21.45p). If VAT were still at 17.5%, petrol would be around 2.7p cheaper per litre.[18] Seven other European countries have higher petrol prices than the UK and only one country has higher diesel prices.[19]



Source: AA and Library calculations

The increase in duty for 2010/11 was introduced in three stages. Duty increased by 1 penny on 1 April 2010 and 1 October and by 0.76p on 1 January. These increases were contained in the March 2010 Budget and implemented by the Government. Labour's March 2010 Budget announced that fuel duty would increase by 1p a litre in real terms each year between April 2011 and April 2014.[20] If this policy were implemented it would mean duty increasing by slightly more than 3p to around 62p a litre in April.

The Government has indicated that the Budget may contain some measures on fuel duty. In a speech on 5 March, the Chancellor said:

> When it costs £1.30 for a litre of petrol; £80 to fill up a family car; I know people feel squeezed. And I say this to people watching: I hear you. This April I'm freezing council tax, cutting income taxes for 23 million people and increasing child tax credits payments to the low paid. But we've got another of the Labour Party's pre-prepared rises in petrol tax also coming this April - one penny above inflation. I won't take risks with economic stability, or wreck the public finances. But I promise you I am doing everything I can to find a way to help.[21]

18 Assuming no change in the pre-VAT price.
19 AA Fuel price report, February 2011
20 HM Treasury, Budget March 2010, para1.28
21 Speech by George Osborne at Conservative Party Spring Conference, 5 March 2011

The June 2010 Budget said that the Government was looking at a fuel stabiliser where duty would fall if the oil price rose and vice versa.[22] The June 2010 Budget announced that the Chancellor had asked the Office for Budget Responsibility to "undertake an assessment over the summer of the effect of oil price fluctuations on the public finances". The Government would use these findings when looking at "options for the design of a fair fuel stabiliser". The Economic Secretary explained:

> A Fair Fuel Stabiliser could support motorists when the cost of living is rising, by reducing fuel duty when oil prices rise (and vice versa). A key principle underlying an FFS should be that it reduces the sensitivity of the public finances to oil prices and improves the long-term stability of the public finances. Therefore, understanding the size of any windfall accruing to Government as a result of high oil prices (and therefore how much fuel duty can be cut when prices are high, and vice versa) is key…[23]

At Prime Minister's Questions on 2 March, David Cameron referred to sharing the extra revenue from higher oil prices with the motorist:

> Mr Robert Buckland (South Swindon) (Con): At a time when prices at the petrol pumps are going up and up, will the Government do all that they can to ease the pressure on hard-pressed motorists?
>
> The Prime Minister: My hon. Friend makes an extremely good point. I know how difficult it is for motorists, and particularly for small businesses and families, when they are filling up at the pumps and paying more than £1.30 a litre. As we have said, we will look at the fact that extra revenue comes to the Treasury when there is a higher oil price, and see if we can share some of the benefit of that with the motorist. That is something that Labour never did in all its time in government, and it ought to be reminded of the fact that it announced four increases in fuel duty last year, three of which were due to come in after the election.[24]

The OBR's findings on the effect of an oil price rise on the public finances were published in September 2010. Their conclusion, as summarised by the IFS, was that any claim that the Treasury would receive a windfall gain as a result of oil prices rise that it could "share" with motorists was "incorrect".[25] The OBR found that although an increase in oil prices of £10 a barrel would increase revenues by £2.4 billion, the wider effect on the public finances would reduce the benefit to close to zero for a temporary rise in oil prices, while there would be a loss to the public finances from a permanent rise. The IFS commented that "This need not prevent a FFS being adopted, but it could only be done so by injecting more uncertainty into the public finances rather than less".[26]

Fuel duties are forecast to raise £27.7 billion in 2010/11, around 5% of total government receipts.[27] Reversing or staging the duty increase would therefore have an impact on the public finances. The IFS has estimated the cost of freezing the duty in either real or cash terms:

> Cancelling the one penny real increase would cost about £500 million. Freezing duties in cash terms would cost just over £1.5 billion. The latter figure would be higher if inflation forecasts for the third quarter are revised upwards in the Budget (RPI inflation

---

[22] HM Treasury, Budget June 2010, para 2.100

[23] Letter from Economic Secretary to Sir Alan Budd published as Annex 1

[24] HC Deb 2 March c300

[25] *Fuel duties and a fair fuel stabiliser: fuel for thought,* IFS Observations, March 2011

[26] *Fuel duties and a fair fuel stabiliser: fuel for thought,* IFS Observations, March 2011

[27] OBR, Economic and fiscal outlook, November 2010, Table 4.6, p91.

> was 5.1% in January 2011). If oil prices remain high, future planned increases in duties would also come under pressure. Cancelling all the real rises to 2014-15 would leave revenues about £2 billion lower each year from then. Cancelling all inflation-adjustments as well would leave revenues about £6 billion lower.[28]

The June Budget also said that the Government was considering a fuel duty discount in rural areas.[29] The issue of fuel duty in rural areas was also mentioned in a debate on fuel prices in Westminster Hall:

> When we came into government, we announced our intention to introduce a rural fuel duty pilot. The pilot will deliver a duty discount of up to 5p per litre on all petrol and diesel, which will save some drivers in rural areas more than £500 a year. We are still looking at the exact scope of the scheme; today's debate has shown that many hon. Members have particular concerns for their communities and the rurality faced by those communities. It is not as easy as one might hope to define what is rural and where a rural fuel duty might apply, but the pilot aims to get on with that process and work through those challenges. We want the scheme to go ahead in the Inner and Outer Hebrides, the Northern Isles and the Isles of Scilly, but we have not yet finished the exact definition of the scheme. Before it goes ahead, the scheme must get clearance from the European Union. Those discussions are ongoing and are currently at an informal level as that is the best way to proceed to ensure that the pilot scheme is approved. We will update the House further at the time of the Budget.[30]

The Government recently announced that it is planning to apply to the European Commission to implement a 5p per litre rural fuel duty rebate pilot scheme covering all islands in the Inner and Outer Hebrides, Northern Isles, the islands in the Clyde and the Isles of Scilly.[31]

Further information on fuel prices and duties is in a range of Library Standard Notes:

Taxation of road fuels (SN/BT/824)

Taxation of road fuels: policy following the financial crisis (2000-08) (SN/BT/3016)

Taxation of road fuels: the road fuel escalator (1993-2000) (SN/BT/3015)

Petrol and diesel prices (SN/SG/4712)

4 A Budget for Growth

"The Budget is going to be unashamedly pro-growth, pro-enterprise and pro-aspiration", George Osborne, 5 March 2011.[32]

The June 2010 Emergency Budget concentrated on tax and spending priorities over the coming years (with the more detailed allocations of spending until 2014/15 set out in the October 2010 Spending Review). The 2011 Budget is expected to be different: major changes to fiscal policy are not expected, but there has been widespread speculation that the Budget will focus on microeconomic and targeted measures to promote economic growth.

---

28 *Fuel duties and a fair fuel stabiliser: fuel for thought,* IFS Observations, March 2011
29 HM Treasury, Budget June 2010, para 2.101
30 HC Deb 15 February 2011 c218WH
31 HC Deb 9 March 2011 c1166W
32 Speech by George Osborne: *We're building a better future for Britain*, 5 March 2011

The Government has been criticised for lacking a coherent "growth policy" and for reportedly abandoning plans to publish an autumn White Paper on growth.[33] Business groups have criticised the Government for a lack of "real action",[34] while the Opposition has argued that by reducing expenditure in areas such as regional development, the Government is making it harder for the private sector to fuel growth.[35] The Government's counter argument is that their role is to create an environment in which private business can thrive, through deregulation and selective intervention to address market failure and local difficulties, rather than large scale intervention in freely operating markets:[36]

> Government on its own cannot create growth. It is the decisions of business leaders, entrepreneurs and individual workers which build our economy. What the Government can do is provide the conditions for success to promote a new economic dynamism – harnessing our economic strengths, removing the barriers which prevent markets from supporting enterprise, and putting the private sector first when making decisions on tax, regulation and spending.

4.1 Growth Review

The Government published *The path to strong, sustainable and balanced growth* in November 2010.[37] This announced a rolling Growth Review to consider structural reforms and how to tackle barriers to growth. The initial priority areas are:

- Planning
- Trade and inward investment
- Competition
- Regulation
- Access to finance
- Corporate governance

Six sectors were chosen for particular consideration in the first phase of the review:

- Advanced manufacturing
- Digital and creative industries
- Business and professional services
- Retail
- Construction
- Healthcare and life sciences

The first tranche of policy proposals are due to be reported in the Budget. The Government has also announced that it intends to set out the next phase of cross-Government priorities in its Budget announcements. [38]

4.2 Employment law and small business regulation

There has been widespread speculation that the Budget will include plans to reduce employment rights, such as maternity and paternity rights, for those working in small

---

33 *FT*, 21 November 2010, *Ministers ditch growth master plan*, Elizabeth Rigby and George Parker
34 *FT*, 27 February 2011, *Business demands growth push in Budget*, Brian Groom
35 John Denham speech to the Smith Institute, 18 January 2011
36 HM Treasury/BIS, *The path to strong, sustainable and balanced growth*, November 2010, foreword by George Osborne and Vice Cable
37 HM Treasury/BIS, *The path to strong, sustainable and balanced growth*, November 2010
38 Ibid, para 2.5

businesses.[39] This would be consistent with the Employers' Charter announced in January 2011. Launching the Charter, the Prime Minister said "[...] speak to businesses and they'll say something else: that the balance of rights is tilted far too much in favour of employees over employers [...] I'm determined we shift some of that balance back".[40] The Shadow Chancellor, Ed Balls, has dismissed such proposals as "ideological claptrap".[41]

On 18 March 2011, BIS announced that "a public audit of almost 22,000 statutory instruments that are currently on the statute book" would be carried out and that start-ups and businesses with fewer than ten employees would be exempt from new domestic regulations for three years.[42]

4.3 Enterprise Zones

The Chancellor announced on 6 March 2011 that new Enterprise Zones in England would be created through measures in the forthcoming Budget.[43] It is anticipated that official announcements will be made concerning where the zones will be located, how they will be selected, and how they will work.

Media reports indicate there will be up to 10 Enterprise Zones, with total Government funding of £100 million over four years; and that they will be predominantly located in the Midlands and the North of England. Businesses in Enterprise Zones may be subject to tax breaks, business rates discounts, and the relaxation of planning rules.[44]

The concept of an Enterprise Zone is a revival of a 1980s policy, whereby businesses in a total of 30 areas received such concessions. Two recent think-tank reports, from the Centre for Cities and the Work Foundation, have cast doubt on the success of the 1980s schemes.[45] Criticisms of the policy include that the zones were expensive, failed to create long term jobs and that they acted to displace economic activity from elsewhere rather than boost it overall.

4.4 Regional Growth Fund

The Regional Growth Fund (RGF) is worth £1.4 billion over three years from 2011/12 to 2013/14. Its purpose is to "to help areas and communities at risk of being particularly affected by public spending cuts",[46] through stimulating private sector investment and employment. It covers England only. Bids must come from the private sector or from public-private partnerships (including, but not restricted to, Local Enterprise Partnerships).

The first round of bidding to the RGF ended on 21 January 2011. 464 bids were received with a total value of £2.78 billion.[47] Given that between £250 and £300 million was expected to be distributed in the first round, a large proportion of applications are likely to be turned down.[48]

---

39 For example, *FT*, 12 March 2011, *Balls attacks plan to cut rights at SMEs*, Elizabeth Rigby and Jim Pickard
40 Number 10 press release, 27 January 2011, *The Employer's Charter: Driving growth and supporting business*
41 *FT*, 12 March 2011, *Balls attacks plan to cut rights at SMEs*, Elizabeth Rigby and Jim Pickard
42 BIS press release, 18 March 2011, *Government bins business red tape*
43 Speech by George Osborne: *We're building a better future for Britain*, 5 March 2011
44 For example, *Daily Telegraph*, 14 March 2011, *Chancellor George Osborne to create £100m enterprise zones*, Louise Armitstead
45 Kieran Larkin and Zach Wilcox, *What would Maggie do?*, Centre for Cities, February 2011 and Andrew Sissons and Chris Brown, *Do enterprise zones work?*, The Work Foundation, February 2011
46 BIS press release, 29 June 2010, *£1 billion fund to help regional business*
47 BIS website
48 BIS website

There has been speculation that the results of the first round of the RGF will be announced on Budget day. Further details on the RGF can be found in the Library Standard Note on the Regional Growth Fund (SN/EP/5874).

4.5 Lending to small business

The recent "Project Merlin" agreement between the Government and major banks included a commitment by Barclays, HSBC, Lloyds Banking Group, RBS and Santander to provide £76 billion of gross new lending capacity to small and medium-sized enterprises (SMEs) in 2011.[49] This would be 15% higher than the £66 billion lent in 2010. The Chancellor described this as "the absolute key" to the discussions.[50]

Various measures of bank lending to small businesses suggest it has fallen in the past two years. This is particularly true of new term lending. However, survey evidence suggests that this is partly attributable to reduced demand for loans, rather than simply a restriction by banks of the supply of lending. Further discussion is included in the March edition of the Library's *Economic Indicators* Research Paper.[51]

4.6 Solutions for Business

The Government has recently announced a new, simplified portfolio of business support products. The new arrangements are designed to "help businesses identify and overcome key challenges as they grow and develop" and will "target activities where a Government lead is required, such as providing access to strategic advice, helping companies reach international markets and supporting innovation". Examples of these services include Finance for Business and the Manufacturing Advisory Service.[52]

4.7 European Regional Development Fund

The European Regional Development Fund (ERDF) provides support for EU-wide policies within regions of the UK. From 2004, funding was delivered via the Regional Development Agencies (RDAs), which are to be abolished by 1 April 2012. Administration of the ERDF is being returned to the DCLG. The details of this administrative change, and how the Government intends to integrate the ERDF and other programmes, are due to be set out in the Budget.[53]

5 Tax policy

The Coalition Government set out its priorities for taxation in its agreement, published in May 2010. On its overall approach the agreement stated: "the Government believes that the tax system needs to be reformed to make it more competitive, simpler, greener and fairer. We need to take action to ensure that the tax framework better reflects the values of this Government."[54]

As with other policy areas, the agreement took elements of the tax plans made in both the Conservative and Liberal Democrat manifestoes, dropping some policies made by each party – such as the Liberal-Democrat proposal for a 'mansion tax' on properties worth £2 million or more – or indicating that they were no longer a priority – such as the Conservative proposal

49 *Project Merlin – Banks' statement*, 9 February 2011 – Revised, para 1.3.3
50 HC Deb 9 February 2011 c317
51 House of Commons Library Research Paper 11/21
52 BIS press release, 17 March 2011, *New 'Solutions for Business' portfolio refocused on growth*
53 HM Government, *Local growth: realising every place's potential*, Cm 7961, 28 October 2010
54 HM Government, *The Coalition: our programme for government*, May 2010 p30

to raise the inheritance tax threshold to £1 million.[55] Other proposals represented a compromise between the two parties: the agreement stated that the Government would "seek ways of taxing non-business capital gains at rates similar or close to those applied to income, with generous exemptions for entrepreneurial business activities."[56] In the Election the Liberal Democrats had argued the single 18% rate of CGT should be replaced, harmonising its structure with the rates of income tax (20%, 40% and 50%), while the Conservatives had strongly opposed any increase on the grounds this would inhibit innovation.

Similarly in the case of personal taxation the Liberal Democrats had proposed that the personal allowance should be substantially increased to £10,000, at a cost of some £16 billion – by far the largest tax cut mentioned by any of the three major parties. During the election campaign the Institute for Fiscal Studies noted that the financial benefits of this proposal would be skewed to those on higher incomes, in part because the very poorest gain nothing from income tax cuts, and also because the party envisaged no change in the level of income at which people started to pay the higher rate of tax.[57] For its part the new Government confirmed that a £10,000 personal allowance was a long-term goal, and that the allowance would be increased substantially each year, but that this would be done in a way so that the benefits would be "focused on those with lower and middle incomes." In their own manifesto the Conservatives had argued that spouses should be entitled to transfer part of their personal allowance to each other, as a way for the tax system to 'recognise marriage' – something the Liberal Democrats had opposed. As a compromise, the Government promised that it would "ensure that provision is made for Liberal Democrat MPs to abstain on budget resolutions to introduce transferable tax allowances for married couples without prejudice to the coalition agreement."[58]

Some commentators were critical that although the agreement was quite detailed, it omitted any mention of major tax increases that would be necessary to improve the public finances – specifically, an increase in the standard rate of VAT, which many felt was inevitable.[59] Similar criticisms had been made of the manifestoes of all three major parties during the election campaign.[60] As the *Financial Times* commented, "the initial horse-trading has blunted the more controversial aspects of both parties' programmes but maintained the air of unreality that surrounded the election debate on deficit reduction. The Government must now get down to creating a credible plan in which hefty increases in taxation will be hard to avoid."[61]

In their manifesto the Conservatives had proposed "an emergency Budget within 50 days of taking office",[62] and on 17 May the new Chancellor George Osborne announced that he would present this to the House on 22 June.[63] In recent years the timing of General Elections has often meant that the Government of the day has introduced two Finance Bills

---

55 As noted by BBC economics editor, Stephanie Flanders, when the first draft of the agreement was released: "Give and take", *BBC news online : Stephanomics blog*, 12 May 2010

56 *op.cit.* p30

57 Institute for Fiscal Studies, *Taxes and Benefits: The Parties' Plans - 2010 Election Briefing Note No. 13 (IFS BN100)*, 27 April 2010 pp34-36. The document gives a comprehensive survey of the proposals made by all three parties on taxes and benefit, and their potential impact on the public finances.

58 *The Coalition: our programme for government*, May 2010 p30

59 "Get ready for VAT rise … economists warn", *Times*, 14 May 2010

60 For example, "Gorilla in the room of this phoney war: a rise in VAT", *Guardian*, 28 April 2010

61 "Just the facts: the new politics", *Financial Times*, 13 May 2010

62 *Invitation to join the Government of Britain: the Conservative Manifesto*, April 2010 p7

63 HM Treasury press notice 03/10, 17 May 2010

in the one year, passing a shorter Bill before the Dissolution of the House, and a catch-up Bill after the election. With a change in Government, this is often accompanied by a second Budget statement – as it was with the Labour Government, which had a Budget on 2 July 1997 after its victory in the election in May that year.[64]

In his Budget, Mr Osborne announced the implementation of several tax measures which had been foreshadowed in the Coalition agreement – such as a significant increase in the personal allowance – though, as many had predicted, the most significant tax measure in the Budget, in revenue terms, had not been mentioned in this document: an increase in the standard rate of VAT from 17.5% to 20% from 4 January 2011. The other major new measures were:

- Increasing the personal income tax allowance by £1,000 to £7,475 from April 2011, while the basic rate limit – the point at which individuals become liable to pay income tax at the higher rate – would be reduced to ensure higher rate taxpayers did not benefit from the increased allowance.

- Increasing the 'secondary threshold' – the point at which employers become liable to pay National Insurance contributions (NICs) on an employee's earnings – by £21 per week in real terms from April 2011. This change was in addition to reforms to the structure of NICs which the Labour Government had announced in its March 2010 Budget, discussed below.

- A new bank levy on banks' balance sheets from 1 January 2011.

- Increasing the rate of capital gains tax for higher rate taxpayers from 18% to 28%, as well as increasing the lifetime limit for Entrepreneurs Relief from £2 million to £5 million.[65]

The Chancellor also set out a series of reforms to corporation tax over the next five years, as had been indicated both in the Coalition agreement and a speech Mr Osborne had given a few days after the establishment of the Coalition.[66] In brief, these were:

- Cutting the main rate of corporation tax by 1% each year over the period 2011/12 to 2014/15, from the current rate of 28% to 24% by April 2014.

- Cutting the small profits rate of corporation tax by 1% to 20% from April 2011.

- Decreasing the rates of capital allowances from April 2012.

- Cutting the Annual Investment Allowance from £100,000 to £25,000 from April 2012.

In the case of several other proposals in the agreement, the Budget report confirmed forthcoming consultation – in areas such as alcohol and aviation taxation – though there were some omissions: such as any indication of exactly how the Government would meet its longer-term goal of a £10,000 personal allowance, or mention of transferable allowances and recognising marriage in the tax system.

---

[64] For more details see, *The Budget and the annual Finance Bill*, Library standard note SN/BT/813, 14 September 2010.

[65] Looking at all of the tax policy decisions in the June Budget, the changes were forecast to raise £6.26 billion in 2011/12 (Budget 2010, HC 61 June 2010, Table 2.1, p40).

[66] HM Treasury press notice, *Speech by the Chancellor of the Exchequer … at the CBI Annual Dinner*, 19 May 2010; "Osborne promises to protect industry", *Financial Times*, 20 May 2010

The Chancellor also confirmed a series of tax measures which had been announced by the Labour Government in its March 2010 Budget or earlier.[67] This included major changes to the structure of NICs from April 2011:

- A 1% increase in both the main rate, and the additional rate, of NICs paid by employees, employers and the self-employed. (Initially the Labour Government had proposed a 0.5% increase in NIC rates in its 2008 Pre-Budget Report (PBR), but decided the increase should be double this in its PBR the following year.)

- An increase in the 'primary threshold' – the point at which employees start to pay the main rate of NICs on their earnings – from April 2011 to compensate earners on lower incomes for the increase in NICs rates. (As with the increase in NI rates, this increase was announced in two stages in the 2008 and 2009 PBRs.[68])

Legislation dealing with NICs is not included in the annual Finance Bill, so provision to make these changes is included in the *National Insurance Contributions Bill 2010-11*, which is before the House at present.[69]

In its March Budget the Labour Government had also announced that excise duties on both road fuels and alcoholic drinks would be increased in real terms each year, at least until 2014/15. A commitment to increase excise duties this way is often called a 'duty escalator': for alcohol, rates would be increased annually by 2% in real terms, whereas for road fuel rates would rise each year in real terms by 1p a litre.[70] In the June Budget the Coalition Government confirmed it would continue with these plans.[71]

In the run up to the Budget this year, there has been relatively little speculation about new or unexpected tax changes which Mr Osborne might announce. As the *Independent* has noted, this is because in December the Government had published a majority of the clauses to be in the forthcoming Finance Bill in draft form for consultation:

> However, while the Chancellor is reckoned to be sympathetic to many of the proposals put forward, tax accountants have little expectation of any major announcements or surprises. This is partly, as George Bull of Baker Tilly points out, a result of a continuing of the policy of pre-announcing or consulting on tax legislation changes. "Never before have we known so much, so far in advance of the Chancellor's speech," he said. The draft Finance Bill, published in December, outlined much of the proposed tax laws for this year and little tinkering with the detail is expected. Instead, the Chancellor is expected to provide more of an economic overview.[72]

That said, it seems most likely that the Chancellor will address a number of tax issues in his speech further to what has already been published:

---

[67] A full list with costings is set out in the Budget report (Table 2.4, page 55). These are projected to raise £7.42 billion in 2011/12.

[68] Initially the primary threshold was to rise from April 2011 to align it with the personal allowance. In 2008/09 the allowance had been increased by an *extra* £600, as compensation for the abolition of the 10p starting rate of income tax. In the 2009 PBR the Government proposed a further increase in the threshold, to mitigate the impact of the higher 1% increase in NI rates, set for 2011/12.

[69] For a summary of these changes see, *National Insurance contributions : changes from April 2011*, Library standard note SN/BT/5550, 3 December 2010.

[70] *Budget 2010* HC 451 March 2010 para 5.84, para 7.39

[71] HC 61 June 2010 para 2.134, para 2.139

[72] "Recovery doesn't come cheap - we're going to need a bigger Budget", *The Independent*, 9 March 2011. Details of this consultation are on the Treasury site: http://www.hm-treasury.gov.uk/finance_bill_2011.htm

- The Government has been lobbied strongly to abolish or suspend the escalator on road fuel duties inherited from its predecessor, and introduce a duty 'stabilizer' to mitigate the impact on motorists of the strong growth in oil prices seen in recent weeks. The Chancellor has made it clear that he is reviewing the issue and will report back in his Budget.[73] (see also section 3.5 of this note).

- The Government has also been lobbied to suspend the duty escalator on alcohol taxes. In December the Government announced proposals to introduce new duty rates on very high-strength, and low strength beer, as part of its wider approach to tackling problem drinking – publishing draft legislation to this effect – but said that any decision about the future level of duty rates would be made as part of the Budget process.[74]

- Although a review the taxation of aviation was indicated in both the Coalition agreement and the June Budget, the Government has yet to publish any proposals.[75]

- Similarly the Government has not published any details on how it might make changes to the income tax system to recognise marriage, although this was an important theme to the Conservative manifesto, and carried over into the Coalition agreement.[76]

- There has been a long-running campaign over the ability of retailers to sell CDs and DVDs online free of VAT using subsidiaries in the Channel Islands by exploiting 'Low Value Consignment Relief', undercutting retailers on the high street. The Government has said it is actively reviewing the issue, and hopes to make an announcement in the Budget.[77]

- In July 2010 the Government established the Office of Tax Simplification, and asked it to undertake two reviews of aspects of the tax system in time for the 2011 Budget – an analysis of the existing structure of tax reliefs, and the taxation of small businesses, including the treatment of personal service companies (the so-called IR35 rules.) The OTS has published two substantive reports, and although both reports raise many questions that would need further review, the Chancellor's initial response is expected in the Budget.[78]

An annex to this note gives a checklist of tax measures which appeared in the Coalition agreement, flagging those which have already been implemented, or in cases where they have not, noting if the Government has already stated they will be included in the coming Finance Bill, or has given some other indication of how they may be taken forward.

6 Media coverage of the Budget

There has some speculation in the media in recent weeks about the announcements the Chancellor may include in the Budget. Probably the most prominent of these relates to fuel duty (this is discussed in more detail in section 3.5 of this note). There has also been a campaign led by the pub trade for the Government to suspend the other 'duty escalator'

73 See also, *Taxation of road fuels*, Library standard note SN/BT/824, 11 February 2011
74 See also, *Beer taxation and the pub trade*, Library standard note SN/BT/1373, 17 March 2011
75 See also, *Air passenger duty: recent debates and reform*, Library standard note SN/BT/5094, 17 March 2011
76 See also, *Tax, marriage & transferable allowances*, Library standard note SN/BT/4392, 14 December 2010
77 See also, *VAT on postal packages*, Library standard note SN/BT/44155, 19 January 2011
78 For details see the Office of Tax Simplification site here: http://www.hm-treasury.gov.uk/ots.htm

which applies to alcohol duty rates – further to the Government's plans announced in December last year to change the structure of beer duty to help tackle problem drinking.[79]

There have been several reports that a formal consultation on reforming air passenger duty (APD) will be launched in the Budget.[80] In the June 2010 Budget the Government had said it would "explore changes" to the way air transport is taxed, including a switch from a per passenger to a per plane duty and that major changes would be "subject to public consultation" but has not given any details since then.[81] Media reports suggest that this change was expected in the Budget, but that it has been scrapped, as Ministers have received legal advice that it would break the 1944 Chicago Convention.

The Fair Tax on Flying campaign, backed by airlines, airports and travel trade associations, opposes any further rise in APD.[82] The *Daily Telegraph* claims a petition with 40,000 signatures against any further rise in APD. This was also one of the key themes of the CBI's budget representations.[83]

There have also been reports that a consultation will be launched on the operation of 'Low Value Consignment Relief (LVCR)': this relieves imports worth up to £18 of VAT if they come from outside the EU, and has been exploited by some retailers setting up subsidiaries in the Channel Islands to sell CDs, DVDs and other low-cost items to UK online shoppers. Speaking for the Government in a short debate recently in the Lords Lord Sassoon said, "we are committed to tackling tax avoidance and, in that context, we hope to announce possible changes to the operation of LVCR in the Budget." The *Daily Telegraph* has suggested tightening the rules will be strongly opposed by large online retailers, while the *Guardian* says a formal consultation is likely – "Osborne, who criticised the loophole when he was shadow chancellor, is thought unlikely to introduce any radical changes to the rules on LVCR without a formal consultation."[84]

There have been suggestions that the Government may announce the exclusion of small businesses from a number of provisions of employment legislation. Some sources suggest that 'small businesses' would refer to those with 10 employees and under, others that it would refer to 5 employees and under. The *Sunday Times* stated that employment minister Mark Prisk was meeting business leaders to discuss details in advance of the Budget.[85]

There have been several media reports of the plans of Iain Duncan Smith, the Work and Pensions Secretary, to introduce a flat rate state pension. This was initially trailed in his speech to Age UK on 8 March 2011.[86] Most reports state that a level of around £140 per week is likely, a small increase on the current basic figure: the increase would be paid for by administrative simplification, via removing the current means-tested pension credit. Although

---

79 "Strong beers hit by a 3p health tax", *Sunday Times*, 13 March 201 & "New report shows the vital role of beer and pubs in every local area in Britain", British Beer and Pub Association News Release, 14 March 2011

80 "RIP for APD", *Sunday Times*, 23 January 2011; "Taxes may rise on London flights to ease overcrowding", *Daily Telegraph*, 31 December 2010

81 HC 61 June 2010 para 1.123

82 "2011: the most expensive year to holiday abroad", *Sunday Times*, 6 March 2011 where ABTA are quoted as saying "we would count it as a victory if it wasn't raised even more".

83 CBI news release, *CBI calls for an all-action Budget for growth and jobs*, 7 March 2011

84 "Retailers say scrapping of tax relief on low value items would be an attack on business", *Daily Telegraph*, 3 March 2011, "George Osborne to clamp down on Internet VAT dodge in Budget", *Guardian*, 1 March 2011

85 "Balls attacks plans to cut rights at SMEs", *Financial Times*, 12 March 2011; see also, "Maternity leave shake-up", *Sunday Times*, 13 March 2011

86 "State pension reform: £140 a week for everyone", *Daily Telegraph*, 7 March 2011

reports state that legislation is unlikely for another couple of years, work is believed to have begun on a Green Paper, likely to be published in summer 2011. The plans may be announced in the Budget. There are differing reports on whether a link to National Insurance would be retained under the new system.

The Local Government Chronicle states that a working group of senior local authority figures has been assembled by DCLG, to work out technical issues around the piloting of partial retention of business rates.[87] This has led to speculation that a pilot of partial retention will be announced in the Budget, aimed at creating incentives for local authorities to drive economic growth. Local authorities currently collect business rates and pass them to the Treasury, which remits sums to them based on an equalisation process: hence they do not necessarily benefit from increasing business activity in their areas.

Separately, there have long been calls for the right to set the business rate multiplier to be returned to local authorities, following the creation of the National Non-Domestic Rate (NNDR) in 1989.[88] Debate continues within Government on including this in the terms of reference of a forthcoming local government finance review, which is expected to be announced in the Budget. Media reports indicate that Nick Clegg and Vincent Cable support relocalisation of the business rate, whilst Eric Pickles (who holds departmental responsibility) is undecided. The CBI l is against the relocalisation of the setting of rates. The finance review will not report until summer 2011 at the earliest."

"

[87] Sunday Times, "Rates revamp will lift small business; Councils given incentive to lure new companies under chancellor's plan for rates", 13 March 2011

[88] See Library Standard Note SN/PC/5229 for an explanation of the National Non-Domestic Rate (the business rate).

7 Appendix 1: Economic and public finance data

Economic data 1979-2015

	Real GDP growth %	Inflation RPI %	Inflation CPI % (a)	Unemployment thousands (b)	Unemployment % (b)
1979	2.7	13.4	..	1,432	5.4
1980	-2.0	18.0	..	1,833	6.8
1981	-1.2	11.9	..	2,609	9.6
1982	2.2	8.6	..	2,875	10.7
1983	3.7	4.6	..	3,081	11.5
1984	2.7	5.0	..	3,241	11.8
1985	3.6	6.1	..	3,151	11.4
1986	4.0	3.4	..	3,160	11.3
1987	4.6	4.2	..	2,940	10.4
1988	5.0	4.9	..	2,445	8.6
1989	2.3	7.8	5.2	2,082	7.2
1990	0.8	9.5	7.0	2,053	7.1
1991	-1.4	5.9	7.5	2,530	8.9
1992	0.1	3.7	4.3	2,822	9.9
1993	2.2	1.6	2.5	2,929	10.4
1994	4.3	2.4	2.0	2,676	9.5
1995	3.1	3.5	2.6	2,436	8.6
1996	2.9	2.4	2.5	2,296	8.1
1997	3.3	3.1	1.8	1,988	6.9
1998	3.6	3.4	1.6	1,788	6.2
1999	3.5	1.5	1.3	1,727	6.0
2000	3.9	3.0	0.8	1,587	5.4
2001	2.5	1.8	1.2	1,489	5.1
2002	2.1	1.7	1.3	1,528	5.2
2003	2.8	2.9	1.4	1,489	5.0
2004	3.0	3.0	1.3	1,424	4.8
2005	2.2	2.8	2.1	1,466	4.8
2006	2.8	3.2	2.3	1,672	5.4
2007	2.7	4.3	2.3	1,652	5.3
2008	-0.1	4.0	3.6	1,780	5.7
2009	-4.9	-0.5	2.2	2,394	7.7
2010	1.3	4.6	3.3	2,476	7.8
2011	2.1	..	2.8	..	8.0
2012	2.6	..	1.9	..	7.7
2013	2.9	..	2.0	..	7.2
2014	2.8	..	2.0	..	6.7
2015	2.7	..	2.0	..	6.1

Sources: ONS (series ABMI, CZBH, D7G7, MGSC, MGSX), OBR Economic and fiscal forecast, November 2010, Table 3.1

Notes: (a) inflation outturns are for calendar years, forecasts are for Q4; CPI estimated before 1997

(b) ILO unemployment

Public sector finance statistics data 1979/80 to 2015/16

	Public sector net borrowing (a)		Structural borrowing	Public sector net debt (a)		Debt interest payments (b)	
	£ billion	% GDP	% GDP	£ billion	% GDP	£ billion	% GDP
1979/80	8.5	4.1	4.0	98.2	43.9	7.6	3.6
1980/81	11.5	4.8	3.4	113.8	46.0	9.2	3.8
1981/82	6.0	2.3	-1.5	125.2	46.2	11.2	4.3
1982/83	8.5	3.0	-1.4	132.5	44.8	12.1	4.2
1983/84	11.7	3.8	0.0	143.8	45.1	13.2	4.2
1984/85	12.3	3.7	0.6	157.2	45.3	14.7	4.4
1985/86	8.8	2.4	0.6	162.7	43.5	16.6	4.5
1986/87	8.1	2.0	1.9	167.8	41.0	17.2	4.3
1987/88	4.4	1.0	2.2	167.4	36.8	18.4	4.2
1988/89	-6.3	-1.3	1.3	153.9	30.5	19.0	3.9
1989/90	-1.0	-0.2	2.6	152.2	27.7	19.8	3.7
1990/91	5.8	1.0	2.6	151.3	26.2	19.5	3.4
1991/92	22.6	3.7	3.3	166.1	27.4	17.5	2.9
1992/93	46.7	7.4	5.5	201.9	31.4	18.4	2.9
1993/94	51.0	7.7	5.4	249.8	36.5	20.1	3.0
1994/95	43.3	6.2	4.7	290.0	40.1	22.8	3.2
1995/96	34.7	4.7	3.8	322.1	41.9	26.1	3.5
1996/97	27.1	3.4	2.8	347.2	42.5	27.6	3.5
1997/98	5.8	0.7	0.6	352.0	40.6	29.2	3.5
1998/99	-4.5	-0.5	-0.2	350.7	38.4	28.7	3.2
1999/00	-15.5	-1.6	-1.1	344.4	35.6	25.0	2.6
2000/01	-18.3	-1.9	-1.1	311.1	30.7	26.0	2.6
2001/02	-0.2	0.0	0.2	314.3	29.7	22.0	2.1
2002/03	25.1	2.3	1.9	346.0	30.8	20.9	1.9
2003/04	33.0	2.9	2.6	381.5	32.1	22.3	1.9
2004/05	39.8	3.3	3.1	422.1	34.0	23.9	2.0
2005/06	37.4	2.9	2.8	461.7	35.3	25.8	2.0
2006/07	30.9	2.3	2.3	497.8	35.9	27.6	2.0
2007/08	33.7	2.4	2.6	527.2	36.5	30.0	2.1
2008/09	96.4	6.7	6.3	606.3	43.3	30.5	2.1
2009/10	156.4	11.1	8.8	759.5	52.7	30.9	2.2
2010/11	148.5	10.0	7.6	922.9	60.8	42.7	2.9
2011/12	117.0	7.6	5.3	1052	66.3	44.0	2.8
2012/13	91.0	5.6	3.5	1157	69.1	48.6	3.0
2013/14	60.0	3.5	1.9	1232	69.7	53.5	3.1
2014/15	35.0	1.9	0.8	1284	68.8	58.9	3.2
2015/16	18.0	1.0	0.3	1320	67.2	63.1	3.3

Sources: ONS, HM Treasury Public finances databank A1, and OBR Economic and fiscal forecast, November 2010, Table 4.23

Note: (a) borrowing and debt figures exclude effect of financial sector interventions

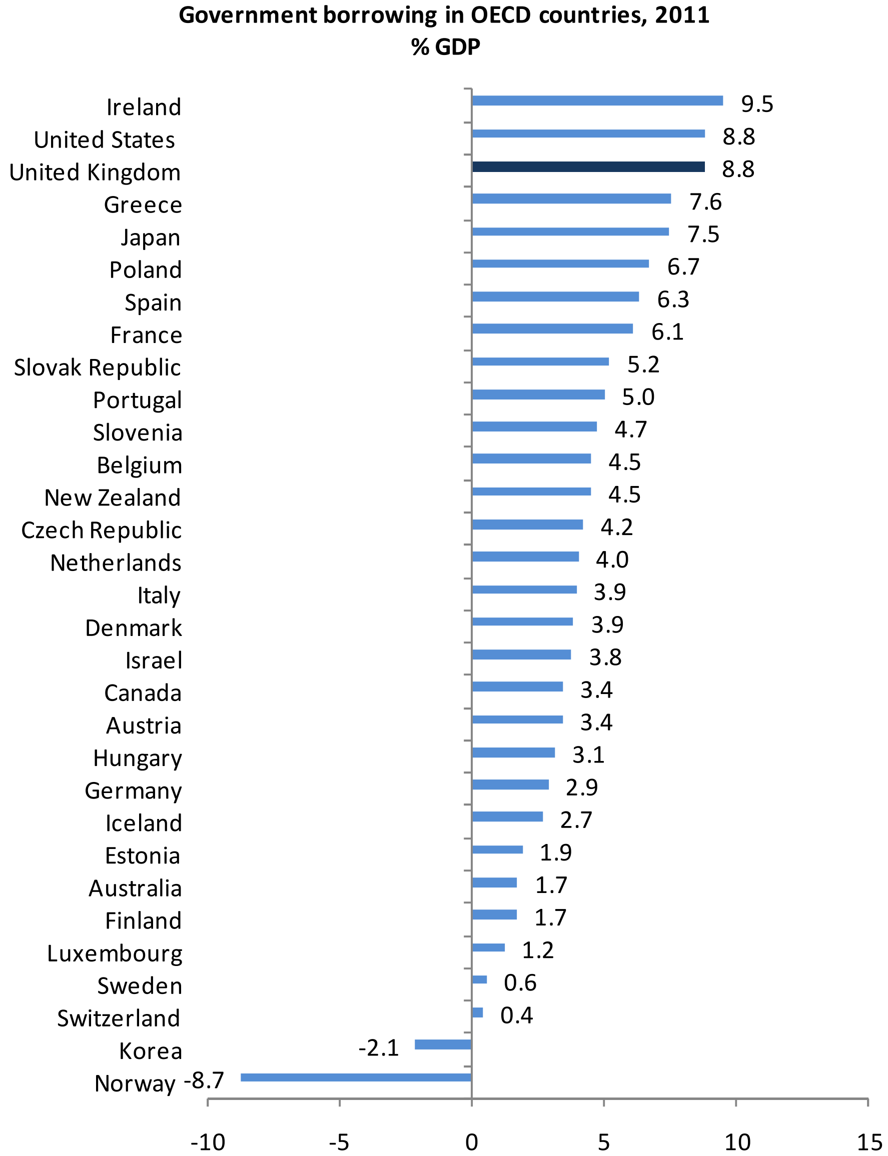
(b) cyclically-adjusted public sector net borrowing

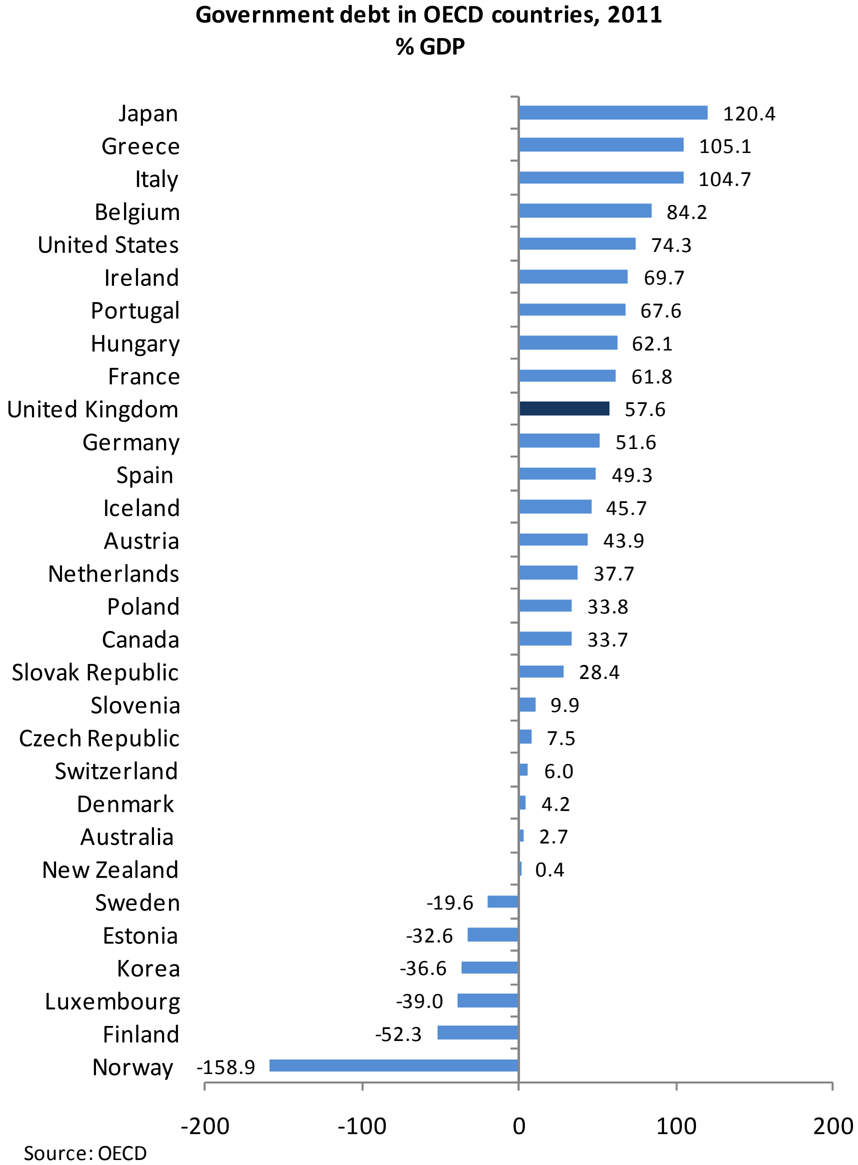
(c) central government gross debt interest payments

8 Appendix 2: International comparisons of government borrowing and debt

The charts below are taken from the December edition of the OECD's Economic Outlook, except the UK borrowing figure which is from the March 2011 edition of the OECD's Economic Survey of the UK.

Data for other years (besides those shown in the chart) are in Annex tables 27 (borrowing) and 33 (debt).





Note: net debt measures are not entirely comparable across countries due to different definitions and treatment of debt and assets.

9 Appendix 3: Links to further information

HM Treasury

March 2011 Budget

March 2010 Budget

June 2010 Budget

2010 Spending Review

Public finance databank

Forecasts for the UK economy: a comparison of independent forecasts

Office for Budget Responsibility

Economic and fiscal outlook, November 2010

Assessment of the effect of oil price fluctuations on the public finances, September 2010

Institute for Fiscal Studies

IFS Green Budget 2011

IFS analysis of monthly public finance figures

Fuel duties and a fair fuel stabiliser: fuel for thought, IFS Observations, March 2011

Treasury Select Committee

http://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/

House of Commons Library

Economic Indicators Research Paper

(external users: http://www.parliament.uk/topics/Economic-situation.htm)

The Budget and the annual Finance Bill (SN/BT/813)

Taxation of road fuels (SN/BT/824)

Taxation of road fuels: policy following the financial crisis (2000-08) (SN/BT/3016)

Taxation of road fuels: the road fuel escalator (1993-2000) (SN/BT/3015)

Petrol and diesel prices (SN/SG/4712)

10 Appendix 4: Tax measures in the Coalition agreement

This table gives a checklist of tax measures in the Coalition agreement, indicates whether they are implemented in the June 2010 Budget and the *Finance (No 2) Act 2010*, introduced in the weeks after the Budget, or if not, whether the Government has published draft legislation to be included in the Finance Bill after the 2011 Budget, or alternatively, given some other indication of how and when this measure might be taken forward. The Treasury have collated details on tax consultations following the June 2010 Budget on their site, while HM Revenue & Customs have a page giving updates since the Budget.

At this time the Government announced that it would introduce two Finance Bills in 2010: the first, in a matter of days, limited to its key priorities (such as raising the standard rate of VAT to 20%), the second, in the autumn, given over to a series of technical measures which the Labour Government had planned to introduce in the March 2010 Budget, but had decided to postpone until after the Election.[89] The first Bill, containing just 11 clauses, was published on 1 July, and after its second reading, was scrutinised by a Committee of the Whole House over 3 days; the *Finance (No2) Act 2010* received Royal Assent on 27 July.[90] Draft legislation for the second Bill was published in July;[91] the Bill was published on 15 September, had its second reading on 11 October, and received Royal Assent – as the *Finance (No3) Act 2010* – on 16 December.

Although HMRC have often published individual draft clauses to be included in a future Finance Bill, many tax practitioners have argued that far too little of the annual Bill is released in draft form, and the timetable for Parliamentary scrutiny for tax legislation is too short to avoid mistakes. Alongside the June Budget the Government published a paper on its approach to tax policy, proposing that in future nearly all of the Finance Bill would be realised in draft three months before formal publication, subject to certain exceptions.[92] Following a number of consultations over the summer, on 9 December the Treasury published a large amount of draft legislation constituting the majority of the clauses to be included in the Finance Bill after the 2011 Budget;[93] in a statement the Exchequer Secretary David Gauke announced "this practice will become an established feature in the tax policy making cycle … the draft clauses will be open to consultation until 9 February ... The Finance Bill will be published in full on 31 March 2011." Alongside the draft clauses the department published a series of 'tax information and impact notes', which, as the Minister explained, set out "for each draft clause, the proposed change, why we seek the change and what we expect the impacts to be."[94]

---

89 *Budget 2010* HC 61 June 2010 para 2.118. The Budget report itemises these measures in section 2b (pp 54-60); this section of the report is available at: http://www.hm-treasury.gov.uk/d/junebudget_chapter2.pdf

90 The Committee considered the Bill on 12,13 & 15 July & gave the Bill its Third Reading on 20 July 2010.

91 Collated at: http://www.hm-treasury.gov.uk/finance_bill_autumn_consult.htm

92 ie, straightforward changes to rates, allowances and thresholds; revenue protection measures; and areas where forestalling presents a significant risk (HM Treasury, *Tax policy making: a new approach*, June 2010 para 2.11).

93 Collated at: http://www.hm-treasury.gov.uk/finance_bill_2011.htm

94 HC Deb 9 December 2010 c29WS. The Minister gave more detail on this new approach to presenting material on tax changes in a second statement recently: HC Deb 15 March 2011 c5WS.

Coalition agreement	Budget 2010 HC 61 June 2010	December 2010 draft Finance Bill	Other developments
"We will announce in the first Budget a substantial increase in the personal allowance from April 2011, with the benefits focused on those with lower and middle incomes" p30	Personal allowance to be increased by £1,000 to £7,475 from April 2010, with corresponding reduction in basic rate limit (para 1.93-4).	Income tax rates and allowances for 2011/12 confirmed (HC Deb 2 December 2010 c85WS), including cut in basic rate limit by £2,400 to £35,000 – and draft legislation published.	Not applicable
"We will further increase the personal allowance to £10,000, making real terms steps each year towards meeting this as a longer-term policy objective. We will prioritise this over other tax cuts, including cuts to Inheritance Tax" p30	No further details given of future plans for the allowance, and no mention made of inheritance tax threshold.		None
"The increase in employer National Insurance thresholds proposed by the Conservatives will go ahead in order to stop the planned jobs tax" p30	All rates of NICs to rise by 1% from April 2011, as proposed by Labour Government in March 2010 Budget, while employer threshold to rise by £21 a week in real terms (para 1.66).		Legislation to this effect – the *National Insurance Contributions Bill 2010-11* - introduced in November 2010. For details see Library Research papers 10/76 & 10/83.
"We will … ensure that provision is made for Liberal Democrat MPs to abstain on budget resolutions to introduce transferable tax allowances for married couples without prejudice to the coalition agreement" p30	No mention made transferable allowances in Budget, nor any consultation launched.		None

"We will reform the taxation of air travel by switching from a per-passenger to a per-plane duty, and will ensure that a proportion of any increased revenues over time will be used to help fund increases in the personal allowance" p30	Confirmation the Government will "explore changes to the aviation tax system, including switching from a per-passenger to a per-plane duty" and any major changes to be "subject to public consultation" (para 1.123).		No consultation paper issued to date. Confirmation that there have been meetings on this with "a number of stakeholders" and that "major changes will be subject to consultation" (HC Deb 26 January 2011 cc269-70W).
"We will seek ways of taxing non-business capital gains at rates similar or close to those applied to income, with generous exemptions for entrepreneurial business activities" p30	Rate of CGT for higher rate taxpayers to rise from 18% to 28% from 23 June 2010, alongside increase in entrepreneurs relief (para 1.96). Legislation to effect this in s2 & sch1 to *Finance (No 2) Act 2010*.		Not applicable
"We will make every effort to tackle tax avoidance, including detailed development of Liberal Democrat proposals" p30	Measures to tackle individual avoidance schemes in *Finance (No2) Act 2010*, and informal consultation on General Anti-Avoidance Rule (GAAR) launched (paras 2.110-6).	Draft legislation on several anti-avoidance measures, alongside statement on general approach to anti-avoidance (HC Deb 6 December 2010 cc1-2WS).	*Spending Review* allocation to improve action against avoidance & evasion (Cm 7942, October 2010 pp71-2). Expert study group to explore case for GAAR (HM Treasury press notice 04/11, 14 January 2011). Additional anti-avoidance measures for *Finance Bill 2011* (HC Deb 9 March 2011 c61WS).
"We will increase the proportion of tax revenue accounted for by environmental taxes" p31	No discussion or mention of specific tax increases to ensure this.		None, though *IFS Green Budget 2011* notes green tax receipts will rise slightly over next four years, on current estimates.
"We will take measures to fulfil our EU treaty obligations in regard to the taxation of holiday letting that do not penalise UK-based businesses" p31	Consultation to be launched for reform to rules to be implemented from April 2011 (para 2.85).	Consultation launched in July (HC Deb 27 July 2010 cc80-82WS). Government response in December, alongside draft legislation.	
"We will review the taxation of non-domiciled individuals" p31	Confirmation that Government "will review" this issue (para 2.30).		Government to make "a detailed announcement about the timing and scope of the review in due course" (HL Deb 6 July 2010 c44WA).

"We will introduce a banking levy and seek a detailed agreement on implementation" p9	New levy based on banks' balance sheets to be introduced from 1 January 2011 (para 1.63).	Consultation launched in July, Government response in October, and draft legislation in December.	Statement on 8 February 2011 that rate of levy to be higher in first year of operation that initially proposed (HC Deb cc 310-327).
"We will review IR 35, as part of a wholesale review of all small business taxation" p10	Confirmation that Government "remain committed" to doing this (para 1.69).		In July Office of Tax Simplification established, and asked to present review of small business taxation in time for 2011 Budget – published on 10 March 2011.
"We will reform the corporate tax system by simplifying reliefs and allowances, and tackling avoidance, in order to reduce headline rates" p10	Series of reforms to corporation tax, including cut in main rate by 1% each year from 2011 to 2014 (para 1.61). Rate cut from 28% to 27% for 2011 by s1 of *Finance (No2) Act 2010*.	Consultations on Controlled Foreign Company (CFC) regime and taxation of foreign branches – draft legislation on these reforms, changes to capital allowances, and further reductions in tax rates for 2012.	
"We will … refocus the research and development tax credit on hi-tech companies, small firms and start-ups" p10	Intention to consult so as "to review the taxation of intellectual property [&] the support R&D tax credits provide for innovation" (para 1.61).		Consultation launched in November; HM Revenue & Customs publish evaluation of R&D credits in December (Research report 107).
"We will review alcohol taxation and pricing to ensure it tackles binge drinking without unfairly penalising responsible drinkers, pubs and important local industries" p13	Informal consultation begun, to report in the autumn (para 1.120).	Review published in November recommends two new duty rates for very high-strength and low strength beers – draft legislation published.	
"We will examine the case for moving to a 'gross profits tax' system for the National Lottery" p14	Confirmation the Government "will review the taxation of the National Lottery" (para 2.99).		Informal consultation set to be completed by summer 2011.

"We will work to bring Northern Ireland back into the mainstream of UK politics, including producing a government paper examining potential mechanisms for changing the corporation tax rate in Northern Ireland" p28	Government to "publish a consultation paper in autumn 2010, on rebalancing the Northern Ireland economy" which will, among other things, "examine mechanisms for changing the corporation tax rate" (para 2.108).		Paper has yet to be published – Government's intention is that it should be released "soon" (HC Deb 14 February 2011 c532W). In July 2010 the Northern Ireland Affairs Committee announced an enquiry into this issue, and this is ongoing.