



HM Treasury

# **SPRING STATEMENT 2022**

---



# SPRING STATEMENT 2022

---

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

March 2022

CP 653



© Crown copyright 2022

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit [nationalarchives.gov.uk/doc/open-government-licence/version/3](https://nationalarchives.gov.uk/doc/open-government-licence/version/3)

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

This publication is available at [www.gov.uk/official-documents](https://www.gov.uk/official-documents)

Any enquiries regarding this publication should be sent to us at [public.enquiries@hmtreasury.gov.uk](mailto:public.enquiries@hmtreasury.gov.uk)

ISBN 978-1-5286-3235-5

CCS0222366496 / E02726399 03/22

Printed on paper containing 75% recycled fibre content minimum

Produced by the APS Group.

Printed in the UK by HH Associates Ltd on behalf of the Controller of Her Majesty's Stationery Office.

# Contents

---

	Page
Executive summary	1
Chapter 1 Economy and public finances	5
Chapter 2 Helping families and businesses	23
Chapter 3 Policy decisions	27
Chapter 4 Tax Plan	33
List of abbreviations	45
List of tables	46
List of charts	46



# Executive summary

---

Spring Statement 2022 takes place following the unprovoked, premeditated attack Vladimir Putin launched on Ukraine. The invasion has created significant uncertainty in the global economy, particularly in energy markets. The sanctions and strong response by the UK and its allies are vital in supporting the Ukrainian people, but these decisions will inevitably have an adverse effect on the UK economy and other economies too.

Higher than expected global energy and goods prices have already led to an unavoidable increase in the cost of living in the UK. The repercussions of Putin's invasion of Ukraine will add to these pressures and increase inflation further in the coming months, with the long-term consequences not yet being clear. As a result, the uncertainty surrounding the Office for Budget Responsibility's (OBR) spring economic and fiscal forecast is higher than usual.

The UK economy has emerged from the pandemic in a strong position to meet these challenges. The success of the government's COVID-19 vaccine rollout and the Plan for Jobs have helped support a quicker than expected recovery and a strong labour market, with the total number of payrolled employees now over 600,000 above pre-pandemic levels. Tax receipts have been stronger than expected, which has contributed to borrowing falling this year and over the forecast period. The improvement seen in the public finances has created additional headroom against the government's fiscal rules, which the government has prioritised using to deliver reductions in tax.

The government has already taken significant steps to help with the cost of living. This includes a cut to the Universal Credit taper rate and increases to work allowances to make sure work pays; the £9 billion package announced in February to help households with rising energy bills this year; and freezing alcohol duties and fuel duty to keep costs down.

The government is taking further action in the Spring Statement to help households. A significant increase to the National Insurance Primary Threshold and Lower Profits Limit will allow hard-working people to keep more of their earned income. A temporary 12 month cut will be introduced to duty on petrol and diesel of 5p per litre, representing a saving worth around £100 for the average car driver, £200 for the average van driver, and £1500 for the average haulier, when compared with uprating fuel duty in 2022-23. To help households improve energy efficiency and keep heating bills down, the government will expand the scope of VAT relief available for energy saving materials and ensure that households having energy saving materials installed pay 0% VAT.

Small and medium-sized enterprises (SMEs) are also affected by rising costs. The Spring Statement builds on previously announced support for SMEs, including business rates relief worth £7 billion over the next five years; increasing the Annual Investment Allowance from £200,000 to £1 million until March 2023; subsidising the cost of high-quality training through the Help to Grow: Management scheme; and helping firms to adopt new digital technologies with Help to Grow: Digital. Businesses will also benefit from the cut to fuel duty, and the Employment Allowance will increase to £5,000 from April – a tax cut of up to £1,000 for around half a million small businesses.

The government has taken the responsible decisions needed ahead of the Spring Statement to strengthen the public finances, which has created the space to provide this extra support. The Spring Statement confirms that after providing this support the government continues to meet its fiscal rules, with an increased margin of safety. Underlying debt is falling as a percentage of GDP and the current budget is in surplus in the target year. Preserving fiscal space is vital given the increasing risks from global challenges and the level of uncertainty in the economic outlook.

## Tax Plan

---

The Spring Statement sets out the government's plans to reform and reduce taxes. The Tax Plan – with its focus on helping families with the cost of living, creating the conditions for private sector led growth, and sharing the proceeds of growth fairly with working people – will drive improvements in living standards and support levelling up across the UK. The Tax Plan will be delivered in a responsible and sustainable way, guided by the core principle that prudent levels of space should be maintained against the fiscal rules. It will depend on continued discipline on public spending and the broader macroeconomic outlook.

The government will reform and reduce taxes in three ways:

- **Helping families with the cost of living.** The Spring Statement increases the annual National Insurance Primary Threshold and Lower Profits Limit from £9,880 to £12,570, from July 2022. This aligns the Primary Threshold and Lower Profits Limit with the income tax personal allowance. This will help almost 30 million working people, with a typical employee benefitting from a tax cut worth over £330 in the year from July.
- **Boosting productivity and growth by creating the conditions for the private sector to invest more, train more and innovate more – fostering a new culture of enterprise.** To do this, the government intends to cut and reform business taxes, to create a culture of enterprise and the conditions for private sector-led growth.
- **Sharing the proceeds of growth fairly.** The government will reduce the basic rate of income tax to 19% from April 2024. This is a tax cut of over £5 billion a year and represents the first cut in the basic rate of income tax in 16 years. Alongside tax cuts, the government also wants to make the tax system simpler, fairer and more efficient, and will confirm plans for reforms to reliefs and allowances ahead of 2024.

# Spring Statement

---





# 1

## Economy and public finances

---

**1.1** Following Putin’s unprovoked and premeditated invasion of Ukraine, cost of living pressures have intensified and uncertainty has increased. The Office for Budget Responsibility (OBR) sets out in the Economic and Fiscal Outlook (EFO) that “given the unfolding situation in Ukraine, there is unusually high uncertainty around this outlook.”<sup>1</sup> Higher global energy, metals and food prices, which have been volatile since the invasion of Ukraine, pose risks to the outlook for inflation, consumer spending and production. The sanctions imposed on Russia by the UK and its allies in response to the invasion are vital in supporting the Ukrainian people. The invasion, and the resulting effect on global markets, will inevitably have an adverse effect on the UK economy and the cost of living in the short term. The medium-term implications of the invasion are highly uncertain, which increases the risks around the OBR’s forecast.

**1.2** While the outlook is uncertain, the UK economy has emerged from the pandemic in a good position to meet these challenges. The success of the government’s vaccine rollout and the Plan for Jobs have helped support a quicker than expected recovery and a strong labour market.<sup>2</sup> Similarly, tax receipts have been higher than expected.

**1.3** Elevated global energy and goods prices, following the uneven effect of the recovery from the pandemic on global supply and demand, have already led to an increase in the cost of living in the UK and some other advanced economies. The repercussions of Putin’s invasion of Ukraine will add to these pressures and increase inflation further in the coming months. The independent Bank of England’s Monetary Policy Committee (MPC) has a strong track record of controlling inflation. In accordance with its remit the MPC has begun to tighten monetary policy to achieve the 2% inflation target, while supporting the government’s objective for strong, sustainable and balanced growth.

**1.4** In response to pressures on the cost of living, the government announced prior to the Spring Statement a package of support to help households with energy bills and ensure that hard-working people keep more of their income. The best way to support households in the long run is through encouraging strong and sustainable growth across the UK, by promoting investment and innovation; and then sharing more of the proceeds of growth by reducing the tax burden for working people. The government is taking further action to support households through the Spring Statement by cutting taxes.

**1.5** The government remains fully committed to ensuring the sustainability of the public finances. It will continue to take a responsible and balanced approach to supporting households and the UK economy, while still meeting its fiscal objectives and maintaining fiscal space to ensure the UK is resilient to future challenges. The OBR forecasts that the government will continue to meet its fiscal rules. Underlying debt (public sector net debt excluding the Bank of England) is falling and the current budget is in surplus in the target year.

---

<sup>1</sup> Economic and Fiscal Outlook, OBR, March 2022.

<sup>2</sup> [Plan for Jobs](#), HM Treasury, July 2020.

## Economic context

### Growth and the labour market

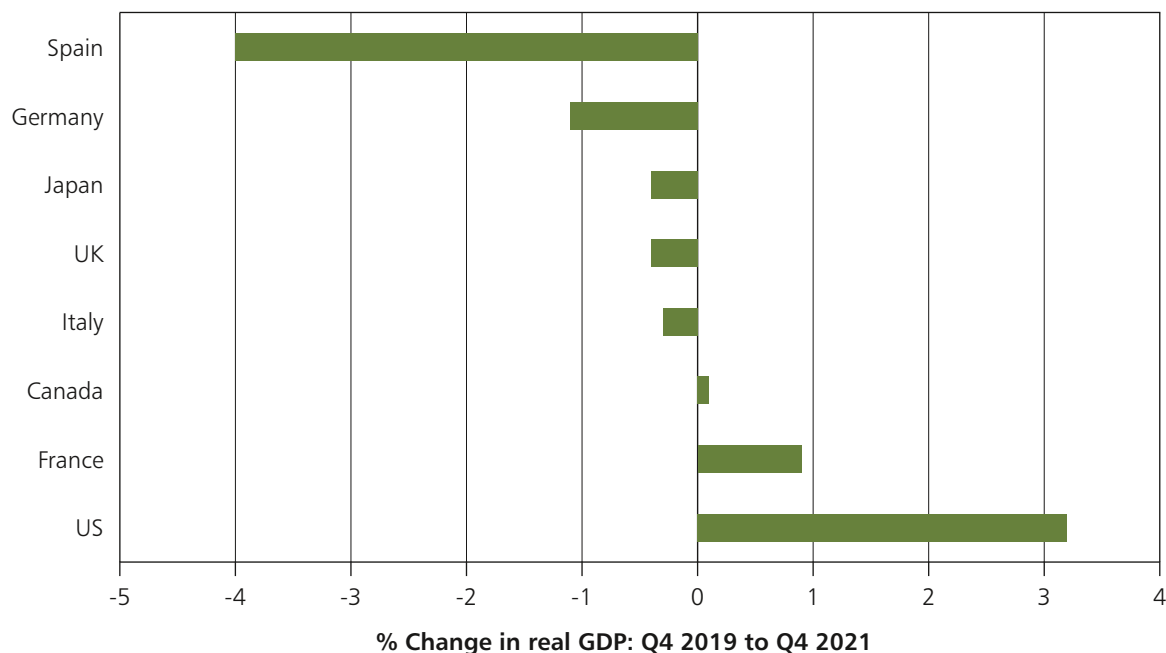
**1.6** Putin’s invasion of Ukraine has created further uncertainty for the economic outlook despite the strong performance of the economy last year. While the OBR’s forecast takes account of changes in international energy prices since the invasion, significant day to day volatility in oil, gas and commodity markets has continued to create uncertainty. As the OBR highlights in the EFO, “Given the evolving situation in the war in Ukraine and the global response, there is significant uncertainty around the outlook for global Gross Domestic Product (GDP).”<sup>3</sup>

**1.7** Following the emergence of the Omicron variant in December, the government implemented Plan B in England, and restrictions were tightened in Scotland, Wales and Northern Ireland. This weighed on output, although by less than expected, with GDP falling by 0.2% in December 2021 before growing by 0.8% in January 2022, above expectations.<sup>4</sup>

**1.8** The economic recovery over the past year has surpassed expectations, with GDP growth of 7.5% in 2021, the fastest in the G7. The International Monetary Fund (IMF) praised the UK’s “strong policy measures and rapid vaccination campaign that helped contain the health, economic, and financial impact of the pandemic, which supported a faster than expected recovery.”<sup>5</sup>

**1.9** The UK economy recovered to its pre-pandemic level around the end of last year with real GDP having regained its February 2020 level by November 2021. Across the final quarter of 2021, GDP was on average 0.4% below its pre-pandemic size. This was a smaller shortfall than Germany, and broadly in line with Italy and Japan.

**Chart 1.1: Quarterly real GDP shortfall to pre-pandemic levels: G7 nations and Spain**



Source: Organisation for Economic Co-operation and Development.

<sup>3</sup> Economic and Fiscal Outlook, OBR, March 2022.

<sup>4</sup> Details of the sources of numerical references, including National Statistics, used in this section can be found in ‘Spring Statement 2022 data sources’.

<sup>5</sup> UK Article IV Consultation, IMF, February 2022.

**1.10** Taking into account the pace of the economic recovery to date, continued global supply chain pressures and the initial impact of Putin’s invasion of Ukraine, the OBR expects UK real GDP to grow by 3.8% in 2022. GDP is then forecast to grow by 1.8% in 2023, 2.1% in 2024, 1.8% in 2025 and 1.7% in 2026.

**Table 1.1: Summary of the OBR’s central economic forecast (percentage change on year earlier, unless otherwise stated)<sup>1</sup>**

	2021	Forecast				
		2022	2023	2024	2025	2026
<b>GDP growth</b>	<b>7.5</b>	<b>3.8</b>	<b>1.8</b>	<b>2.1</b>	<b>1.8</b>	<b>1.7</b>
<b>GDP growth per capita</b>	<b>7.4</b>	<b>3.5</b>	<b>1.5</b>	<b>1.9</b>	<b>1.6</b>	<b>1.5</b>
<b>Main components of GDP</b>						
Household consumption <sup>2</sup>	6.1	5.4	1.0	1.5	1.1	1.2
General government consumption	14.5	2.6	1.2	1.4	1.6	2.0
Fixed investment	5.3	6.0	5.2	1.8	3.6	3.2
Business investment	-0.7	10.6	5.6	3.6	5.4	4.5
General government investment	11.9	-1.1	7.8	-2.0	1.1	1.7
Private dwellings investment <sup>3</sup>	12.6	2.6	2.7	0.8	1.5	1.5
Change in inventories <sup>4</sup>	0.6	-0.3	0.0	0.0	0.0	0.0
Net trade <sup>4</sup>	-1.2	-0.6	-0.1	0.5	0.0	-0.1
<b>Consumer Prices Index (CPI) inflation</b>	<b>2.6</b>	<b>7.4</b>	<b>4.0</b>	<b>1.5</b>	<b>1.9</b>	<b>2.0</b>
<b>Employment (millions)</b>	<b>32.4</b>	<b>32.7</b>	<b>32.9</b>	<b>33.1</b>	<b>33.2</b>	<b>33.3</b>
<b>Unemployment (% rate)</b>	<b>4.5</b>	<b>4.0</b>	<b>4.2</b>	<b>4.1</b>	<b>4.1</b>	<b>4.1</b>
<b>Productivity - output per hour</b>	<b>1.2</b>	<b>-0.2</b>	<b>1.0</b>	<b>1.6</b>	<b>1.3</b>	<b>1.3</b>

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

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

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

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

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

**1.11** The Plan for Jobs has supported the strong recovery in the labour market, with the total number of payrolled employees in February 2022 2.3% above pre-pandemic levels. Unemployment has fallen steadily for twelve consecutive months to below its pre-pandemic rate (three months to February 2020) at 3.9% in the three months to January 2022. The OBR highlights that the Coronavirus Job Retention Scheme “looks to have exceeded all predictions, including ours, regarding its likely success in avoiding the persistent high unemployment that has followed other recessions.”<sup>6</sup> With vacancies at record highs, the unemployment to vacancy ratio is at a record low. Nominal wage growth was 4.8% in the three months to January 2022 and the OBR expects nominal wage growth to average 3.3% across the forecast period.

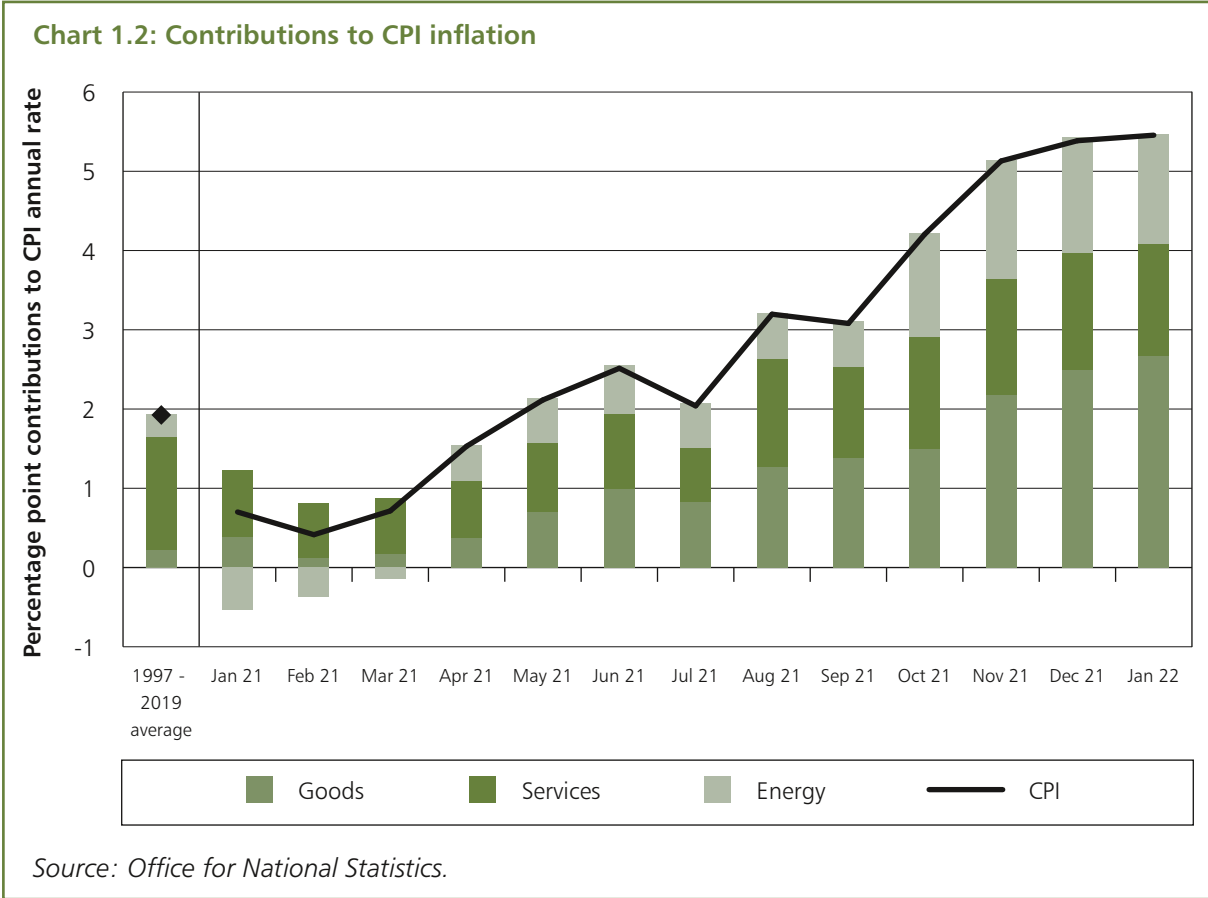
**1.12** Despite this strong recovery in the labour market, there remain 420,000 more inactive workers aged 16 to 64 in the three months to January 2022 compared to the three months to February 2020. One of the main drivers of this increase has been a rise in those reporting ‘long-term sick’, particularly between the ages of 50 and 64. The government is committed to improving outcomes for those who are inactive because of long-term health conditions or disabilities, and has dedicated over £1.1 billion of funding over the Spending Review 2021 period to specialised disability employment support; improving opportunities into and within work. This includes £156 million targeted at extra work coaches that will enable additional work coach time for claimants of incapacity benefits.

<sup>6</sup> Economic and Fiscal Outlook, OBR, March 2022.

**1.13** While there are more people on payrolls than ever before, the latest figures show there are 1.3 million vacancies across the economy. There are around 1.7 million claimants in the searching for work group within Universal Credit currently without a job. The government recently launched the Way to Work campaign, which aims to move 500,000 jobseekers into work by June 2022.<sup>7</sup> As part of this campaign, the government is reducing the time allowed for Universal Credit claimants to search for a job in their preferred sector – from three months to a maximum of four weeks. Work is the best way for people to get on, to improve their lives and support their families. Households on Universal Credit are at least £6,000 a year better off in full-time work than out of work.<sup>8</sup>

**Inflation and the cost of living**

**1.14** Consumer Prices Index (CPI) inflation has risen to a 30-year high in recent months. This has primarily been driven by global factors outside the government’s control, including continued disruption to global supply chains and higher global energy and commodity prices.



**1.15** The UK is not alone in experiencing these pressures, with other major economies also experiencing higher inflation. In the twelve months to February 2022, euro area inflation was 5.9%, and US inflation was 7.9% – the highest US inflation rate since 1982.

**1.16** Global goods inflation has risen, reflecting a global mismatch between demand and supply for manufactured goods, pass-through of higher energy costs and disruption to global supply chains due to the pandemic. This has affected firms through elevated input and shipping costs, and increased delivery times. The latest survey data from firms on supplier delivery times suggest that these effects remained acute in many areas even before the invasion of Ukraine.<sup>9</sup>

<sup>7</sup> Way to Work, Department for Work and Pensions, January 2022.  
<sup>8</sup> Way to Work, Department for Work and Pensions, January 2022.  
<sup>9</sup> UK Manufacturing PMI, IHS Markit, March 2022.

**1.17** Global energy prices were volatile even before Putin’s invasion of Ukraine and remain much higher than pre-pandemic levels. Increased global demand for energy, short-term supply disruptions in major oil-exporting economies, weather patterns in Europe and Asia affecting both the supply of renewable energy and the demand for heating, and lower gas storage balances have all contributed to higher prices. As the OBR sets out in the EFO, the UK is “a net energy importer with a high dependence on gas and oil”, meaning higher energy prices have led to a deterioration in the UK’s terms of trade – the relative prices of the UK’s exports compared with its imports.<sup>10</sup>

**1.18** Following Putin’s invasion of Ukraine, energy prices have risen further amid disruptions to the supply of Russian energy to global markets. Global oil prices rose 9.3% between the week beginning 14 February (the last full week before the invasion) and the week beginning 14 March, and UK and European wholesale gas prices increased by more than 30% over the same period. Rising global energy prices will directly affect UK inflation in the short and medium term. While the Office for Gas and Electricity Markets (OFGEM) energy price cap protects consumers from the rapid changes observed in the wholesale energy market in the short term, the rise in oil prices has already affected petrol pump prices in the UK, which are now at record highs having increased by almost 12% over the past month.<sup>11</sup>

**1.19** Although Russia and Ukraine are not major direct trading partners of the UK, they are large exporters of commodities to global markets including wheat, aluminium, nickel (which is used in batteries) and palladium (a key component in electronics).<sup>12</sup> Since the invasion, prices of these commodities have been volatile and some remain materially higher, indicative of reduced supply and anticipation of potential future disruption. As such, Putin’s invasion of Ukraine risks prolonging or increasing existing supply chain pressures faced by firms, which could affect UK growth and inflation in the short term.

**1.20** The OBR forecasts inflation to remain elevated through 2022 and 2023, peaking at 8.7% in Q4 2022. On an annual basis, inflation is forecast to be 7.4% in 2022, before decreasing to 4.0% in 2023 and 1.5% in 2024. Inflation is then forecast to be 1.9% in 2025 and 2.0% in 2026. However, as the OBR sets out in the EFO, there is significant uncertainty around the outlook for oil and gas prices and therefore the path of inflation over the forecast period: “If ... energy prices stay at current levels beyond the middle of next year, the UK would face a larger and more persistent increase in the price level and fall in real household incomes. If prices fall more quickly than currently expected the reverse would be true.”<sup>13</sup>

**1.21** The government’s commitment to price stability remains absolute. The Bank of England is responsible for controlling inflation and has taken decisive steps by raising interest rates to 0.75%. The Chancellor re-affirmed the Bank’s 2% CPI inflation target at Autumn Budget 2021, and the government remains committed to the independent monetary policy framework which has seen inflation average around 2% between 1997 and 2019.

**1.22** Nonetheless, the government recognises the effect higher inflation has on households, and has already introduced a package of support to help with rising energy bills and to allow hard-working people to keep more of their income. In the Spring Statement, the government is now going further, as set out in Chapter 3. These decisions will provide additional support to households struggling with the effects of higher inflation.

**1.23** In the medium term, the government has announced that it will phase out the import of Russian oil by the end of 2022. This phased approach allows the UK enough time to adjust supply chains ensuring a smooth transition.

---

<sup>10</sup> Economic and Fiscal Outlook, OBR, March 2022.

<sup>11</sup> [Weekly road fuel prices](#), BEIS, March 2022.

<sup>12</sup> [Observatory of Economic Complexity](#), March 2022.

<sup>13</sup> Economic and Fiscal Outlook, OBR, March 2022.

**1.24** The government will soon be setting out an energy security plan. This will include measures across hydrocarbons, nuclear and renewables to support energy resilience and security while delivering affordable energy to consumers. Building on the Prime Minister's Ten Point Plan for a Green Industrial Revolution, the government is raising its delivery ambitions across energy technologies to end the UK's dependency on hydrocarbons from Russia.<sup>14</sup>

### **Box 1.A: The government's response to the invasion of Ukraine**

Russian President Vladimir Putin's assault on Ukraine is an unprovoked, premeditated attack against a sovereign democratic state. The UK is at the forefront of efforts to provide essential support to Ukraine and the Ukrainian people, and to cut off funding to Putin's regime.

#### **Assisting Ukraine's self-defence**

UK military assistance to Ukraine is longstanding. Since 2015 the government has invested in building Ukrainian military capacity and training tens of thousands of Ukrainian troops. In the current conflict the UK has provided over £100 million of military aid to Ukraine, including thousands of anti-tank weapons. The government are enabling up to £3.5 billion of export finance to support Ukraine, including on defence capability.

The 2021 Integrated Review identified Russia as the most acute threat to the UK's security. Reflecting this, the Ministry of Defence received the largest sustained spending increase since the Cold War, with a £24 billion cash uplift over four years. This settlement ensures the UK continues to exceed NATO's 2% of GDP funding guideline and remain one of the leading defence spenders in NATO.

#### **Humanitarian and economic support for the Ukrainian people**

The UK is a leading bilateral humanitarian donor to Ukraine. The government has committed around £400 million in urgent economic and humanitarian support to Ukraine since the invasion, including fiscal support grants, donations and humanitarian aid. This includes a:

- £220 million package of aid helping aid agencies provide medical supplies and basic necessities, saving lives and protecting vulnerable people
- \$100 million budgetary support grant contributing to the World Bank's \$700 million March emergency financing package for Ukraine. The UK supports the World Bank's plans to deliver \$3 billion to Ukraine this calendar year
- £100 million package to boost the Ukrainian economy and reduce its reliance on gas imports including by co-financing a new World Bank energy efficiency programme.

The government stands ready to provide up to \$500 million in guarantees for multilateral lending to Ukraine, enabling Multilateral Development Banks like the World Bank to significantly scale up their financial support if required. The government also strongly supported \$1.4 billion in IMF emergency financing for Ukraine, which is being disbursed to help meet immediate financing needs.

The government has launched 'Homes for Ukraine', a new sponsorship humanitarian visa scheme to give Ukrainians forced to flee a route to safety, and the Ukraine Family Visa Scheme, allowing British nationals and Ukraine nationals settled here to bring Ukrainian family members to the UK. To support refugees being sponsored by the new Homes for Ukraine scheme, the government has committed to provide local authorities with £10,500 per person for support services, and between £3,000 and £8,755 per pupil for education services depending on phase of education, as well as £350 per month for sponsors for up to 12 months.

<sup>14</sup> [The Ten Point Plan for a Green Industrial Revolution](#), GOV.UK, November 2020.

### Maximising economic pressure on Putin's regime

The UK has been at the forefront of the international community's coordinated response to Putin's aggression. Since Putin launched the Russian Federation's invasion, the government has taken unprecedented measures to exclude Russian entities from international finance and the UK financial system. This includes asset freezes on Russian banks that collectively hold more than £250 billion in assets, as well as restricting financial transactions with the Central Bank of Russia. The government has imposed asset freezes on over 1000 high-value individuals, entities and subsidiaries. It has also barred the Russian state and over 3 million Russian companies from raising funds in the UK.

In addition, the government has announced additional import tariffs of 35% on around £900 million of Russian imports, imposed export bans on high-end luxury goods to Russia, barred Russian ships from the UK, and prohibited Russian aircraft from operating in UK airspace. The government has committed to phasing out imports of Russian oil and oil products by the end of the year, and will work with industry to achieve this smoothly through the newly established Taskforce on Oil.

These internationally coordinated sanctions are working. The value of the Russian Rouble plummeted to record lows and remains down by about a quarter of its pre-invasion value against the US dollar, the Moscow stock exchange has been largely suspended since 25 February, and the Central Bank of Russia has been forced to impose capital controls and more than doubled interest rates to 20%. External forecasts expect the Russian economy to go into recession in 2022.

The government also welcomes the widespread commitments from firms and investors to divest from Russian assets and urges businesses to think carefully about investments that would in any way support the Russian government.

## A new culture of enterprise

**1.25** Improving productivity is the only way to deliver sustainable economic growth and increase living standards through higher real wages. The government has already taken important steps to meet its commitments to growth and to levelling-up through the super-deduction, the capital uplift and commitment to invest £20 billion per year in R&D (research and development) by 2024-25.

**1.26** To go further, as the Chancellor set out in the Mais Lecture on 24 February, the government will focus on three priorities:<sup>15</sup>

- **Capital** — cutting and reforming taxes on business investment to encourage firms to invest in productivity-enhancing assets
- **People** — encouraging businesses to offer more high-quality employee training and exploring whether the current tax system – including the operation of the Apprenticeship Levy – is doing enough to incentivise businesses to invest in the right kinds of training
- **Ideas** — delivering on the pledge to increase public investment in R&D and doing more through the tax system to encourage greater private sector investment in R&D

## A responsible approach to sustainable public finances

**1.27** Responsible management of the public finances is even more important at the current time given the increasing risks and uncertainty created by Putin's invasion of Ukraine. Over the past year, the government has taken decisions to strengthen the public finances. This has allowed it to go further in supporting households in the Spring Statement, while still preserving

<sup>15</sup> Chancellor Rishi Sunak's Mais Lecture 2022, GOV.UK, February 2022.



fiscal space to tackle the challenges ahead. As highlighted in the response to the OBR's Fiscal Risks Report published alongside Spring Statement, the government agrees with the OBR's conclusion that "fiscal space may be the single most valuable risk management tool".<sup>16</sup>

**1.28** Public sector net borrowing (PSNB) in 2021-22 is expected to be £127.8 billion, lower than forecast in October 2021. As shown in table 1.2, this reflects stronger receipts outturn than expected in October,<sup>17</sup> combined with lower spending. Receipts remain higher than previously expected across the rest of the forecast, but beyond 2022-23 are partially offset by higher spending, driven higher by inflation and Bank Rate expectations. In 2022-23, higher debt interest payments due to inflation more than offset higher receipts and mean borrowing is higher than forecast in October 2021.

**Table 1.2: Changes to the OBR's forecast for public sector net borrowing since October 2021 (£ billion)<sup>1</sup>**

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
<b>October 2021 forecast</b>	<b>319.9</b>	<b>183.0</b>	<b>83.0</b>	<b>61.6</b>	<b>46.3</b>	<b>46.4</b>	<b>44.0</b>
Total forecast changes since October 2021		-50.9	10.0	-12.5	-14.1	-15.4	-15.0
<i>of which:</i>							
Receipts forecast		-37.4	-30.1	-33.8	-36.9	-37.7	-35.9
Spending forecast		-13.5	40.1	21.2	22.8	22.2	20.9
<i>of which:</i>							
Debt interest		13.1	41.3	12.0	9.8	8.8	7.8
Welfare		-2.0	-3.3	4.3	6.3	6.4	6.9
Total effect of government decisions since October 2021		-4.2	6.1	1.2	4.3	3.9	2.5
<i>of which:</i>							
Direct effects		-4.2	8.3	0.6	3.6	2.9	1.2
<i>of which:</i>							
Student loan reforms		-2.3	-11.2	-3.8	-4.8	-6.1	-7.0
Other policies		-1.9	19.4	4.4	8.4	9.0	8.3
Indirect effects		0.0	-2.1	0.5	0.7	1.0	1.3
<b>Total change in borrowing</b>	<b>2.0</b>	<b>-55.2</b>	<b>16.1</b>	<b>-11.4</b>	<b>-9.8</b>	<b>-11.5</b>	<b>-12.4</b>
<b>March 2022 forecast<sup>2</sup></b>	<b>321.9</b>	<b>127.8</b>	<b>99.1</b>	<b>50.2</b>	<b>36.5</b>	<b>34.8</b>	<b>31.6</b>

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

<sup>2</sup> Figures for PSNB in 2020-21 are consistent with those published in the OBR Economic and Fiscal Outlook. On 22 March, the ONS published the latest Public Sector Finances release, which includes revisions to 2020-21 outturn for PSNB. However, the OBR forecast was closed to new public finances data before these revisions were published.

*Source: Office for Budget Responsibility.*

**1.29** While debt is lower than forecast in October 2021, it remains historically high. Public sector net debt (PSND) increased from 82.7% of GDP in 2019-20 to 94.0% of GDP in 2020-21 and is expected to peak at 95.6% of GDP in 2021-22, the highest level since the 1960s.<sup>18</sup>

<sup>16</sup> Fiscal Risks Report, OBR, July 2021.

<sup>17</sup> Public Sector Finances, UK: February 2022 ONS.

<sup>18</sup> Public Sector Finances, UK: February 2022 ONS.

**Chart 1.3: Public sector net debt**



The data used for the October 2021 forecast are those originally published by the OBR in October 2021 not the amended data published in their March 2022 forecast where the GDP denominator in forecast years has been increased to align with upward revisions to nominal GDP for 2020-21 since the data for the October forecast was finalised.

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

**1.30** At this high level of debt, the public finances are more sensitive to changes in inflation and interest rates. In 2021, OBR analysis found that the first-year fiscal impact of a one percentage point rise in interest rates was six times greater than it was just before the financial crisis, and almost twice what it was before the pandemic.<sup>19</sup> As set out in the updated Charter for Budget Responsibility (the Charter) published alongside Autumn Budget 2021, the government is focused on monitoring and assessing the affordability of servicing public debt, in order to support the achievement of its fiscal objectives.

**1.31** Spending on debt interest has risen sharply in recent months, with new monthly debt interest records in each of the last three months.<sup>20</sup>

**1.32** Debt interest spending is forecast to reach £83.0 billion next year<sup>21</sup> – the highest nominal spending ever and the highest relative to GDP in over two decades.<sup>22</sup> This is nearly four times the amount spent on debt interest last year (£23.6 billion in 2020-21) and exceeds the budgets for day-to-day departmental spending on schools, the Home Office and the Ministry of Justice combined (totalling £78.3 billion in 2022-23).<sup>23</sup> Spending on debt interest in 2022-23 is £42.2 billion above the October forecast and the OBR say that the increase in the forecast for debt interest spending in 2022-23 “is also our largest forecast-to-forecast revision to debt interest on record”.<sup>24</sup>

<sup>19</sup> Fiscal Risks Report, OBR, July 2021.

<sup>20</sup> Economic and Fiscal Outlook, OBR, March 2022; Public Sector Finances, UK: February 2022 ONS.

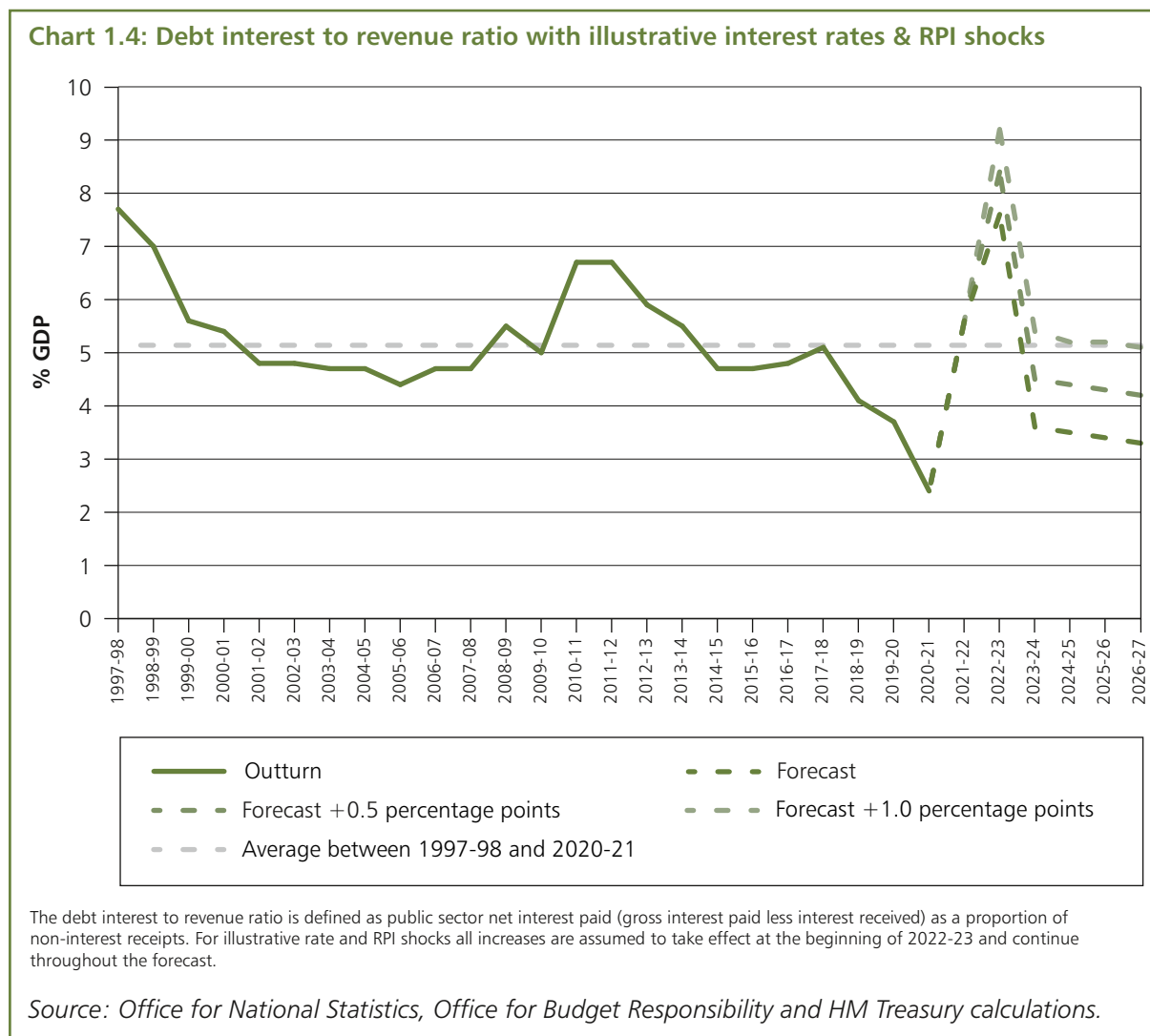
<sup>21</sup> This is central government debt interest, net of the Asset Purchase Facility.

<sup>22</sup> Economic and Fiscal Outlook, OBR, March 2022.

<sup>23</sup> Autumn Budget and Spending Review 2021, p.96, p.99 and p.101.

<sup>24</sup> Economic and Fiscal Outlook, OBR, March 2022.

**1.33** As a result, the debt interest to revenue ratio is expected to pass 6%, hitting 7.6% in 2022-23, as shown in chart 1.4. A further sustained one percentage point increase in interest rates and inflation would cost an additional £18.6 billion in 2024-25, and £21.1 billion by the end of the forecast.<sup>25</sup>



**1.34** The Charter sets out the government’s fiscal mandate and supplementary fiscal targets announced at Autumn Budget 2021.<sup>26</sup> The government’s fiscal mandate to reduce underlying debt as a percentage of GDP in the medium term will reduce the risk created by exposure to changes in interest rates and inflation and keep the public finances on a sustainable footing in the years to come.

**1.35** The fiscal mandate is supplemented by targets that require current spending to be sustainably funded through tax revenues, while also delivering on plans for significant investment in the economy. The OBR forecasts that the government is meeting all of its fiscal rules, with underlying debt falling and the current budget in surplus by the target year, 2024-25. Public sector net investment (PSNI) averages 2.5% of GDP over the forecast and the welfare cap is forecast to be met.

**1.36** The decisions the government has taken, as outlined in Chapter 3, help address cost of living pressures while also maintaining prudent levels of fiscal space in the face of this uncertainty. The fiscal rules are met with a margin of safety of £27.8 billion (1.0% of GDP) against debt falling and the current budget is in surplus by £31.6 billion (1.2% of GDP).

<sup>25</sup> Economic and Fiscal Outlook, OBR, March 2022.

<sup>26</sup> Autumn Budget and Spending Review 2021.

The current level of headroom is broadly in line with the headrooms held by previous Chancellors but the level varies from forecast to forecast, reflecting the economic and fiscal risks at the time.<sup>27</sup> At present there is elevated uncertainty surrounding the economic and fiscal outlook. As the OBR have said, this headroom “could be wiped out by relatively small changes to the economic outlook, including a 1.3 percentage point shortfall in GDP growth in 2024-25 or a 1.3 percentage point increase in the effective interest rate in 2024-25”.<sup>28</sup>

**1.37** The government’s decisions help to strengthen the public sector balance sheet. This is in line with the objective set out in the Charter to strengthen over time a range of measures of the public sector balance sheet. A resilient balance sheet is an important part of sustainable fiscal policy and managing risk. As shown in table 1.3, the OBR forecasts that public sector net worth, which captures all public assets and liabilities, is improving in every year of the forecast, from -79.4% of GDP to -65.9% of GDP in 2026-27.

**Table 1.3: Overview of the OBR’s fiscal forecast (% GDP)**

	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Public sector net debt <sup>1</sup>	95.6	95.5	94.1	91.2	85.8	83.1
Public sector net debt ex Bank of England <sup>1</sup>	82.5	83.5	82.9	81.9	80.9	79.8
Public sector net financial liabilities <sup>1</sup>	83.3	82.6	80.6	78.1	75.9	73.9
Public sector net worth <sup>1,2,3</sup>	79.4	77.6	74.9	71.9	69.0	65.9
General government gross debt <sup>1</sup>	96.3	94.7	93.7	92.3	90.9	89.4
Public sector net borrowing	5.4	3.9	1.9	1.3	1.2	1.1
Public sector net investment	1.6	2.2	2.7	2.5	2.5	2.5
Current budget deficit	3.8	1.7	-0.8	-1.2	-1.3	-1.4
Cyclically-adjusted public sector net borrowing	6.1	4.4	1.9	1.3	1.3	1.1
Cyclically-adjusted current budget deficit	4.5	2.1	-0.9	-1.2	-1.3	-1.4
General government net borrowing	5.7	3.8	1.8	1.4	1.4	1.0

<sup>1</sup> Stock values at end of March; GDP centred on end of March.

<sup>2</sup> IMF Government Finance Statistics Manual (GFSM) basis.

<sup>3</sup> PSNW has been inverted to facilitate comparisons with the other stock metrics.

Source: Office for Budget Responsibility.

## Debt and reserves management

**1.38** The Net Financing Requirement for the Debt Management Office in 2022-23 is forecast to be £147.9 billion; this will be financed by gilt sales of £124.7 billion and net Treasury bill sales for debt management purposes of £23.2 billion. National Savings and Investments will have a net financing target of £6 billion in 2022-23, within a range of £3 billion to £9 billion. The government’s financing plans for 2022-23 are set out in full in the ‘Debt management report 2022-23’, published alongside the Spring Statement.<sup>29</sup>

## Public spending

**1.39** Autumn Budget 2021 set UK government departments’ resource and capital Departmental Expenditure Limits (DEL) budgets and the devolved administrations’ block grants from 2022-23 to 2024-25. Total departmental spending will grow in real terms at 3.7% a year on average over this Parliament – a cash increase of £150 billion a year by 2024-25 (£88 billion in real

<sup>27</sup> Economic and Fiscal Outlook, OBR, March 2022.

<sup>28</sup> Economic and Fiscal Outlook, OBR, March 2022.

<sup>29</sup> Debt Management Report 2022-23, HM Treasury, March 2022

terms). Total managed expenditure as a share of the economy is expected to increase across the Parliament to 41.3% in 2024-25. This is 2.2 percentage points higher than in 2019-20, and 1.4 percentage points higher when compared to 2007-08 when it stood at 39.9%<sup>30</sup>.

**1.40** The government's focus is now on delivering the ambitious plans set out at Autumn Budget 2021. This will require a relentless focus on efficiency, so every pound of taxpayers' money is directed towards providing the highest quality services at the best value and so the government can respond to new challenges from within overall spending plans.

**1.41** The government is taking action to tackle waste and inefficiency across the public sector through a comprehensive efficiency agenda, including:

- putting counter-fraud at the heart of decision-making through a new Public Sector Fraud Authority that will tackle fraud. The government is providing an additional £48.8 million of funding over three years to support the creation of a new Public Sector Fraud Authority and enhance counter-fraud work across the British Business Bank and the National Intelligence Service. The investment enables government and enforcement agencies to step up their efforts to reduce fraud and error, bring fraudsters to justice, and will recover millions of pounds
- investing a further £12 million in HMRC to help prevent error and fraud in tax credits, and in turn support a smooth transition to Universal Credit
- publishing guidance for a new series of Arm's Length Bodies (ALBs) reviews. These reviews will scrutinise the work and effectiveness of ALBs, aiming to deliver savings of at least 5% of their resource DEL budgets to be reinvested into frontline priorities
- confirming that the NHS efficiency commitment will double from 1.1% to 2.2% a year to free up £4.75 billion to fund NHS priority areas which have the most impact on people's lives
- launching a new Innovation Challenge across central government departments to crowdsource ideas for how government can operate more efficiently.

**1.42** These efficiencies and savings commitments must be underpinned by plans to deliver them and the government is taking steps to ensure this happens:

- the Chancellor will chair a new Cabinet Committee on Efficiency and Value for Money to drive efficiency across the public sector and ensure departments demonstrate clear value for money for the taxpayer in government spending.
- outcome Delivery Plans set out how departments will deliver on their priorities using agreed budgets over 2022-25, reflecting commitments to efficiencies and savings. They will be published after the start of the next financial year.

**1.43** The government is maintaining the plans set out at Autumn Budget 2021. Day-to-day departmental spending (resource DEL) is set to grow by £100 billion a year in cash terms over the Parliament, and on capital DEL, public sector net investment will reach its highest sustained level as a proportion of GDP since the late 1970s.<sup>31</sup>

---

<sup>30</sup> Office for National Statistics; Economic and Fiscal Outlook, OBR, March 2022

<sup>31</sup> Economic and Fiscal Outlook, OBR, March 2022.

**Table 1.4: Resource DEL (RDEL) excluding depreciation**

£ billion (current prices)	Outturn <sup>1</sup>	Plans <sup>2</sup>	Plans	Plans	Plans
	2020-21	2021-22	2022-23	2023-24	2024-25
<b>Resource DEL excluding depreciation</b>					
Health and Social Care	136.3	146.1	167.9	173.4	177.4
<i>of which: NHS England</i>	125.9	134.6	151.8	157.4	162.6
Education	66.8	70.8	77.0	79.2	80.6
<i>of which: core schools</i>	47.6	49.8	53.8	55.3	56.8
Home Office	12.9	13.8	15.2	15.6	15.7
Justice	8.2	8.4	9.3	9.8	10.1
Law Officers' Departments	0.6	0.7	0.8	0.8	0.8
Defence	30.6	31.6	32.4	32.2	32.4
Single Intelligence Account	2.3	2.5	2.3	2.4	2.5
Foreign, Commonwealth and Development Office	9.7	7.6	8.5	7.9	7.8
ODA unallocated provision to hit 0.7% of GNI	-	-	-	-	5.2
DLUHC Local Government	5.3	10.7	11.7	12.1	12.8
DLUHC Levelling Up, Housing and Communities	2.3	2.9	2.2	2.2	2.1
Transport	3.6	4.1	7.8	6.8	5.7
Business, Energy and Industrial Strategy	2.1	3.3	8.4	2.7	2.6
Digital, Culture, Media and Sport	1.4	1.7	2.1	1.6	1.6
Environment, Food and Rural Affairs	4.1	4.2	4.5	4.4	4.3
International Trade	0.5	0.5	0.5	0.5	0.5
Work and Pensions	5.7	5.6	8.2	7.3	7.0
HM Revenue and Customs	4.2	4.8	5.2	4.9	4.7
HM Treasury	0.3	0.4	0.3	0.3	0.3
Cabinet Office	0.7	1.0	0.6	0.6	0.5
Scotland <sup>3</sup>	30.3	33.2	35.1	35.7	36.3
Wales <sup>4</sup>	12.5	14.5	15.1	15.4	15.6
Northern Ireland	11.9	12.7	13.1	13.2	13.4
Small and Independent Bodies	2.2	2.7	2.4	2.5	2.4
UK Shared Prosperity Fund	-	-	0.4	0.6	1.3
Reserves	-	-	10.9	10.9	10.3
<b>Total Resource DEL</b>	<b>354.6</b>	<b>384.0</b>	<b>441.9</b>	<b>442.7</b>	<b>453.9</b>
Ringfenced COVID-19 funding	121.2	81.0	-	-	-
<b>Total Resource DEL including ringfenced COVID-19 funding</b>	<b>475.8</b>	<b>465.1</b>	<b>441.9</b>	<b>442.7</b>	<b>453.9</b>
Allowance for Shortfall	-	-21.8	-4.5	-3.7	-3.4
<b>Total Resource DEL excluding depreciation, post allowance for shortfall</b>	<b>475.8</b>	<b>443.3</b>	<b>437.4</b>	<b>439.0</b>	<b>450.6</b>

<sup>1</sup> 2020-21 figures reflect outturn in PESA, adjusted for provisional estimates of core spending. For devolved administrations, figures represent the Barnett consequential of departmental COVID-19 funding less the element they carried forward from 2020-21 into 2021-22.

<sup>2</sup> 2021-22 figures reflect the control totals set at Supplementary Estimates 2021.

<sup>3</sup> Resource DEL excluding depreciation is before adjustments for tax and welfare devolution.

<sup>4</sup> Resource DEL excluding depreciation is after adjustments for tax devolution.

**Table 1.5: Departmental Capital Budgets - Capital DEL (CDEL)**

£ billion (current prices)	Outturn <sup>1</sup>	Plans <sup>2</sup>	Plans	Plans	Plans
	2020-21	2021-22	2022-23	2023-24	2024-25
<b>Capital DEL</b>					
Health and Social Care	8.6	9.2	10.6	10.5	11.3
Education	4.7	5.2	6.3	7.0	6.1
Home Office	0.8	0.9	1.0	1.0	0.8
Justice	1.1	1.5	1.7	2.2	1.4
Law Officers' Departments	0.0	0.0	0.0	0.0	0.0
Defence	11.7	14.3	15.8	15.9	16.3
Single Intelligence Account	0.6	1.0	1.0	1.2	1.2
Foreign, Commonwealth and Development Office	2.8	1.7	2.6	3.5	4.0
DLUHC Levelling Up, Housing and Communities	9.0	7.4	9.5	6.9	6.8
Levelling Up Fund	-	-	0.9	1.4	1.4
Transport	16.9	19.0	20.0	19.9	20.5
Business, Energy and Industrial Strategy	18.8	21.9	19.2	20.8	21.2
Digital, Culture, Media and Sport	0.5	0.6	0.8	1.1	1.2
Environment, Food and Rural Affairs	0.9	1.4	2.1	3.0	2.8
International Trade	0.0	0.0	0.0	0.0	0.0
Work and Pensions	0.3	0.5	0.6	0.5	0.4
HM Revenue and Customs	0.5	0.7	0.7	0.6	0.5
HM Treasury	0.0	0.0	0.0	0.0	0.0
Cabinet Office	0.2	0.4	0.5	0.5	0.5
Scotland	5.2	5.5	5.6	5.6	5.5
Wales	3.3	2.5	2.6	2.6	2.6
Northern Ireland	1.7	1.9	1.9	1.9	1.8
Small and Independent Bodies	0.3	0.4	0.5	0.5	0.6
UK Shared Prosperity Fund	0.0	-	0.0	0.1	0.2
Reserves	-	-	4.9	3.6	3.4
Funding for leases reclassification exercise (IFRS16)	-	-	1.5	1.5	1.5
Adjustment for Budget Exchange	-	-	-2.4	-	-
<b>Total Capital DEL excluding ringfenced COVID-19 funding</b>	<b>88.0</b>	<b>96.1</b>	<b>107.8</b>	<b>111.5</b>	<b>111.9</b>
Ringfenced COVID-19 funding	5.8	2.4	-	-	-
<b>Total Capital DEL including ringfenced COVID-19 funding</b>	<b>93.8</b>	<b>98.5</b>	<b>107.8</b>	<b>111.5</b>	<b>111.9</b>
Remove Capital DEL not in PSGI <sup>3</sup>	-21.1	-18.8	-11.9	-8.0	-8.8
Allowance for Shortfall	-	-10.5	-9.9	-8.8	-8.2
<b>Public Sector Gross Investment in Capital DEL</b>	<b>72.6</b>	<b>69.2</b>	<b>86.0</b>	<b>94.6</b>	<b>94.9</b>

<sup>1</sup> 2020-21 figures reflect outturn in PESA, adjusted for provisional estimates of core spending. For devolved administrations, figures represent the Barnett consequential of departmental COVID-19 funding less the element they carried forward from 2020-21 into 2021-22.

<sup>2</sup> 2021-22 figures reflect the control totals set at Supplementary Estimates 2021.

<sup>3</sup> Capital DEL that does not form part of public sector gross investment in Capital DEL, including Financial Transactions in Capital DEL and Scottish Government capital.

**Table 1.6: Departmental Budgets for 2021-22**

£ billion (current prices)	Resource DEL excluding depreciation			Capital DEL		
	Core	Ringfenced COVID-19	Total	Core	Ringfenced COVID-19	Total
Health and Social Care	146.1	39.2	185.3	9.2	1.2	10.4
Education	70.8	0.8	71.6	5.2	0.0	5.2
Home Office	13.8	1.2	15.1	0.9	0.0	1.0
Justice	8.4	0.2	8.7	1.5	-	1.5
Law Officers' Departments	0.7	-	0.7	0.0	-	0.0
Defence	31.6	-	31.6	14.3	-	14.3
Single Intelligence Account	2.5	-	2.5	1.0	-	1.0
Foreign, Commonwealth and Development Office	7.6	0.1	7.6	1.7	0.1	1.8
DLUHC Local Government	10.7	10.8	21.5	0.0	-	0.0
DLUHC Levelling Up, Housing and Communities	2.9	0.2	3.1	7.4	-	7.4
Transport	4.1	8.5	12.6	19.0	0.5	19.4
Business, Energy and Industrial Strategy	3.3	5.9	9.2	21.9	0.2	22.1
Digital, Culture, Media and Sport	1.7	0.6	2.3	0.6	0.2	0.8
Environment, Food and Rural Affairs	4.2	0.0	4.2	1.4	-	1.4
International Trade	0.5	-	0.5	0.0	-	0.0
Work and Pensions	5.6	3.3	8.9	0.5	0.1	0.6
HM Revenue and Customs	4.8	0.8	5.7	0.7	0.0	0.7
HM Treasury	0.4	0.0	0.4	0.0	-	0.0
Cabinet Office	1.0	0.3	1.4	0.4	-	0.4
Scotland <sup>1</sup>	33.2	4.6	37.8	5.5	0.1	5.6
Wales <sup>1</sup>	14.5	2.8	17.3	2.5	0.0	2.6
Northern Ireland <sup>1</sup>	12.7	1.6	14.3	1.9	0.0	1.9
Small and Independent Bodies	2.7	0.0	2.6	0.4	-	0.4
<b>Total</b>	<b>384.0</b>	<b>81.0</b>	<b>465.1</b>	<b>96.1</b>	<b>2.4</b>	<b>98.5</b>
Allowance for shortfall	-	-	-21.8	-	-	-10.5
<b>Total post allowance for shortfall</b>	<b>-</b>	<b>-</b>	<b>443.3</b>	<b>-</b>	<b>-</b>	<b>88.0</b>

<sup>1</sup> The Statement of Funding Policy provides further information on UK government funding for the devolved administrations.

**1.44** Total Managed Expenditure (TME) is the total amount of money that the government spends through departments, local authorities, other public bodies and social security. TME as a share of the economy is expected to increase across the Parliament from 39.1% in 2019-20 to 41.3% in 2024-25.<sup>32</sup>

**1.45** Table 1.7 sets out planned TME, public sector current expenditure (PSCE) and public sector gross investment (PSGI) up to 2026-27.

<sup>32</sup> Economic and Fiscal Outlook, OBR, March 2022.



**Table 1.7: Total Managed Expenditure (TME)<sup>1</sup>**

£ billion (current prices)	Outturn 2019-20	Outturn 2020-21	Plans 2021-22	Plans 2022-23	Plans 2023-24	Plans 2024-25	Plans 2025-26	Plans 2026-27
<b>Current Expenditure</b>								
Resource AME	406.2	480.9	430.6	488.6	482.4	498.0	512.4	530.0
Resource DEL excluding depreciation <sup>2,3</sup>	345.5	475.8	465.1	441.9	442.7	453.9	471.5	489.0
<i>of which core RDEL excluding depreciation</i>	<i>343.3</i>	<i>354.6</i>	<i>384.0</i>	-	-	-	-	-
<i>of which ringfenced COVID-19 funding</i>	<i>2.2</i>	<i>121.2</i>	<i>81.0</i>	-	-	-	-	-
Ring-fenced depreciation	38.0	33.1	38.2	42.5	43.7	45.2	46.9	48.7
<b>Total Public Sector Current Expenditure</b>	<b>789.6</b>	<b>989.8</b>	<b>933.8</b>	<b>973.0</b>	<b>968.8</b>	<b>997.2</b>	<b>1030.9</b>	<b>1067.7</b>
<b>Capital Expenditure</b>								
Capital AME <sup>4</sup>	24.1	31.4	-5.0	5.8	20.0	17.9	17.7	17.0
Capital DEL <sup>2</sup>	70.2	93.8	98.5	107.8	111.5	111.9	117.1	121.4
<i>of which core CDEL</i>	<i>70.2</i>	<i>88.0</i>	<i>96.1</i>	-	-	-	-	-
<i>of which ringfenced COVID-19 funding</i>	<i>0.0</i>	<i>5.8</i>	<i>2.4</i>	-	-	-	-	-
<b>Total Public Sector Gross Investment</b>	<b>94.2</b>	<b>125.2</b>	<b>93.5</b>	<b>113.6</b>	<b>131.5</b>	<b>129.8</b>	<b>134.8</b>	<b>138.4</b>
<b>Total Managed Expenditure</b>	<b>883.9</b>	<b>1115.0</b>	<b>1027.3</b>	<b>1086.6</b>	<b>1100.3</b>	<b>1126.9</b>	<b>1165.7</b>	<b>1206.1</b>
<i>Total Managed Expenditure % of GDP</i>	<i>39.1%</i>	<i>52.1%</i>	<i>43.4%</i>	<i>43.2%</i>	<i>42.0%</i>	<i>41.3%</i>	<i>41.2%</i>	<i>41.1%</i>

<sup>1</sup> The 2019-20 and 2020-21 Resource DEL excluding depreciation and Capital DEL figures are final PESA outturns. Figures for 2021-22 onwards are plans.

<sup>2</sup> Resource DEL excluding ringfenced depreciation is the Treasury's primary control within resource budgets. Capital DEL is the Treasury's primary control within capital budgets. The Office for Budget Responsibility (OBR) publishes Public Sector Current Expenditure in DEL and AME, and Public Sector Gross Investment in DEL and AME. A reconciliation is published by the OBR.

<sup>3</sup> Resource DEL excluding ringfenced depreciation includes funding for the council tax rebate measure in 2021-22 which will be recorded in the National Accounts in 2022-23 as an accounting adjustment.

<sup>4</sup> Capital AME includes the Office for Budget Responsibility's (OBR) forecast for the total expected cost of government loan guarantee schemes and the OBR's standard capital allowance for shortfall. The OBR have revised down their estimate of the expected cost of guarantees on covid loans schemes. This downward revision scores as negative public sector gross investment in 2021-22. Combined with the capital allowance for shortfall, this has caused a negative capital AME forecast for 2021-22.

Source: HM Treasury Calculations and Office for Budget Responsibility EFO.

**1.46** Some policy measures do not directly affect PSNB in the same way as conventional spending or taxation. These include financial transactions, which predominantly affect the central government net cash requirement (CGNCR) and PSND. Table 1.8 shows the effect of the financial transactions announced since Autumn Budget 2021 on PSND.

**Table 1.8: Financial Transactions from 2021-22 to 2026-27**

£ million	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	AME/DEL
Student finance: eligibility for those relocating from Afghanistan under the Afghan Citizens Resettlement Scheme	0	*	*	-5	-5	-5	AME
Student finance: changes to fee caps, loan terms and eligible courses	0	115	385	825	1,005	1,065	AME
<b>Total policy decisions</b>	<b>0</b>	<b>115</b>	<b>385</b>	<b>820</b>	<b>1,000</b>	<b>1,060</b>	

**Table 1.9: Departmental Capital Financial Transactions Budgets**

£ billion (current prices)	Outturn <sup>1</sup> 2020-21	Plans 2021-22	Plans 2022-23	Plans 2023-24	Plans 2024-25
<b>Financial Transactions budgets</b>					
Health and Social Care	0.1	0.0	0.0	0.0	0.0
Education	0.0	0.0	-0.1	-0.1	-0.1
Defence	0.0	0.1	0.0	0.0	0.0
Foreign, Commonwealth and Development Office	0.2	0.2	0.4	0.9	1.2
DLUHC Levelling Up, Housing and Communities	4.1	2.8	3.6	0.7	0.6
Transport	0.0	0.4	0.0	0.0	0.0
Business, Energy and Industrial Strategy <sup>2</sup>	1.5	2.5	1.6	0.3	0.9
Digital, Culture, Media and Sport	0.4	0.2	0.0	0.0	0.0
Environment, Food and Rural Affairs	0.0	0.0	0.0	0.0	0.0
Work and Pensions	0.2	0.2	0.3	0.2	0.1
HM Treasury	0.0	0.0	0.0	0.0	0.0
Scotland	0.4	0.2	0.5	0.2	0.2
Wales	0.8	0.2	0.3	0.1	0.1
Northern Ireland	0.1	0.1	0.2	0.1	0.1
<b>Total Financial Transactions</b>	<b>7.7</b>	<b>6.9</b>	<b>6.8</b>	<b>2.3</b>	<b>3.1</b>

<sup>1</sup> 2020-21 figures reflect outturn in PESA. For devolved administrations, figures represent the Barnett consequential of departmental COVID-19 funding less the element they carried forward from 2020-21 into 2021-22.

<sup>2</sup> Funding in 2021-22 and 2022-23 include the support provided to Bulb as this is considered a Financial Transaction in the budgeting framework.

**1.47** As part of the forecast process, the government provides the OBR with an assumption for the future path of departmental spending. For the years beyond the Spending Review period, the government has maintained the assumptions set out at Autumn Budget 2021, growing resource and capital DEL in line with nominal GDP growth. Budgets beyond 2024-25 will be set at the next Spending Review.

**1.48** The government committed to Parliament to return to spending 0.7% of Gross National Income (GNI) on Official Development Assistance (ODA) when on a sustainable basis the government is not borrowing for day-to-day spending and underlying debt is falling.

**1.49** At the 2021 Spending Review, the government set ODA budgets accordingly, and reiterated its commitment to review and confirm each year, in accordance with the International Development (Official Development Assistance Target) Act 2015, whether a return to spending 0.7% of GNI on ODA is possible against the latest fiscal forecast. In line with this approach, and noting the current macroeconomic and fiscal uncertainty, the government will determine whether the ODA fiscal tests will be met for 2023-24 at Budget 2022.



# 2

## Helping families and businesses

---

**2.1** The government is taking steps through Spring Statement to provide additional support to households and businesses. The government has prioritised using the improvement in the public finances to deliver reductions in tax, while maintaining a margin of safety against its fiscal rules.

### Supporting households

**2.2** Higher global energy and goods prices have already put pressure on household budgets and the government understands the challenges that many households are facing. The worsening outlook for inflation because of Putin's invasion of Ukraine will likely place additional pressure on households. The sanctions the UK and the international community have imposed do not come without costs, but it is the right course of action to stand against Putin's aggression and show solidarity with the people of Ukraine.

**2.3** Whilst the scale of the economic effects is highly uncertain, the largest effect on households from the conflict will come via higher energy costs. Most households will therefore be protected from immediate impacts through the OFGEM energy price cap until the autumn.

**2.4** The government is continuing to monitor the economic effects of the conflict and the pressures on household finances. HM Treasury analysis published alongside this event shows the decisions made since the Spending Round 2019 have, on average, benefitted those in the lowest income deciles the most.<sup>1</sup>

**2.5** While real wages are 3% above pre-pandemic levels, the government recognises the pressures on households across the income distribution.<sup>2</sup> Those on the lowest incomes will particularly feel the effects of higher inflation because they have less scope to adjust their expenditure in response to prices, and they tend to spend a greater proportion of their expenditure on electricity, gas, and other fuels.<sup>3</sup>

**2.6** Improving energy efficiency is not only good for the climate but can also save households hundreds of pounds a year, helping to eliminate fuel poverty while reducing our reliance on imported gas. The government is already taking action to improve energy efficiency and encourage the electrification of heat.

**2.7** Since March 2021, the government has committed to spend over £9.7 billion on decarbonising buildings. This includes £3 billion to upgrade the energy efficiency of up to half a million homes, saving hundreds of pounds in energy bills per year, and £2.5 billion to decarbonise nearly 2% of the total public estate per year.<sup>4</sup>

---

<sup>1</sup> Impact on households: distributional analysis to accompany Spring Statement 2022, HM Treasury, March 2022.

<sup>2</sup> HMT calculations based on published ONS data. Comparison of real wage levels for the three months to January 2022 with the three months to February 2020. *Average weekly earnings (total pay, whole economy, seasonally adjusted)* deflated by CPI, ONS, January 2022. *Consumer price inflation*, ONS, February 2022.

<sup>3</sup> *Family spending in the UK: April 2019 to March 2020*, ONS, March 2021.

<sup>4</sup> *Spending Review 2021*, Table 2.5, HM Treasury, October 2021.

**2.8** In addition, the government is expanding the Energy Company Obligation to £1 billion per year for 2022-26, requiring energy suppliers to improve the energy efficiency of low-income homes.<sup>5</sup> The government is also developing private rental sector minimum efficiency standards, which are expected to benefit over 2 million households in England and Wales, helping them save on their energy bills and significantly reducing fuel poverty in the private rented sector.

**2.9** The government has already taken significant steps that will help households with the cost of living. These measures ensure work pays and help people keep more of what they earn to support households through the challenge ahead. They include:

- reducing the Universal Credit taper rate from 63% to 55%, and increasing Universal Credit work allowances by £500 a year to make work pay
- increasing the National Living Wage (NLW) for workers aged 23 and over by 6.6% to £9.50 an hour from April 2022
- freezing alcohol and fuel duties to keep costs down
- the £9 billion package announced in February 2022 to help households with rising energy bills this year

**2.10** In addition to supporting households with the cost of living, the government is also working to address issues in supply chains where it can help, including from disruption to the transportation of goods, which has led to higher costs and delays for businesses and consumers. This includes measures to address a shortage of HGV drivers and ease the movement of goods into and across the UK, and ensuring the immigration system is responsive to business needs.

**2.11** Spring Statement announces an increase in the annual National Insurance Primary Threshold and the Lower Profits Limit from £9,880 to £12,570 from July 2022, to align with the income tax personal allowance. This is a tax cut of over £6 billion and worth over £330 for a typical employee in the year from July. Around 70% of National Insurance contributions (NICs) payers will pay less NICs, even accounting for the introduction of the Health and Social Care Levy. This change will take 2.2 million people out of paying Class 1 and Class 4 NICs and the Health and Social Care Levy altogether. It brings into alignment the starting thresholds for income tax and NICs, making the taxation of income fairer, and these thresholds will remain aligned.

**2.12** The government is also taking steps to ensure that self-employed individuals with lower earnings fully benefit. Spring Statement announces that from April 2022 self-employed individuals with profits between the Small Profits Threshold and Lower Profits Limit will continue to build up National Insurance credits but will not pay any Class 2 NICs. Taken together, these measures will meet the government's ambition to ensure that the first £12,500 earned is tax free.

**2.13** In addition, in response to fuel prices reaching their highest ever levels, Spring Statement announces a temporary 12-month cut to duty on petrol and diesel of 5p per litre. This measure represents a tax cut of around £2.4 billion over the next year. When compared with uprating fuel duty in 2022-23, cutting fuel duty to this level delivers savings for consumers worth over £5 billion over the next year and will save the average UK car driver around £100, van driver around £200 and haulier around £1,500, based on average fuel consumption.<sup>6</sup>

**2.14** To help households improve energy efficiency and keep energy costs down – as well as supporting the UK's long-term Net Zero ambitions – the government is extending the VAT relief available for the installation of energy saving materials (ESMs). Taking advantage of

---

<sup>5</sup> Energy Company Obligation, BEIS, July 2021.

<sup>6</sup> This £5 billion figure is based on the difference between the rates of fuel duty following today's cut, and the rates they would otherwise be if uprated at Spring Statement.

Brexit freedoms, the government will include additional technologies and remove the complex eligibility conditions, reversing a Court of Justice of the European Union ruling that unnecessarily restricted the application of the relief. The government will also increase the relief further by introducing a time-limited zero rate for the installation of ESMs. A typical family having roof top solar panels installed will save more than £1,000 in total on installation, and then £300 annually on their energy bills. The changes will take effect from April 2022. The Northern Ireland Executive will receive a Barnett share of the value of this relief until it can be introduced UK-wide.

**2.15** To help the most vulnerable households with the cost of essentials such as food, clothing and utilities, the government is also providing an additional £500 million for the Household Support Fund from April, on top of the £500 million already provided since October 2021,<sup>7</sup> bringing total funding to £1 billion.

**2.16** These new measures mean the government is now providing support worth over £22 billion in 2022-23 that will help households with the cost of living.

**2.17** The government is continuing to monitor developments and the consequences for the cost of living, and will be ready to take further steps if needed to support households.

## Supporting Small and Medium-Sized Enterprises

**2.18** The government recognises that, as well as households, businesses – particularly small and medium-sized enterprises (SMEs) – are also struggling with rising energy costs, recruiting staff, and navigating turbulent supply chains as the world economy recovers from the pandemic. SMEs support 16.3 million jobs – 61% of total private sector employment<sup>8</sup> – and a strong economy relies on the entrepreneurship of small businesses across the United Kingdom. That is why the government has and continues to prioritise support for SMEs. Spring Statement builds on measures previously announced and goes further.

**2.19** The government has already reduced the burden of business rates in England. The business rates multiplier will be frozen in 2022-23, which is a tax cut for all ratepayers worth £4.6 billion over the next five years. Eligible retail, hospitality, and leisure businesses will also benefit from a new temporary 50% Business Rates Relief worth £1.7 billion. The package of changes is worth £7 billion over the next five years and means:

- the average pub, with a rateable value of £21,000, will save £5,200
- the average convenience store, with a rateable value of £28,500, will save £7,000
- the average cinema, with a rateable value of £95,500, will save £24,000

**2.20** To help SMEs gain the skills they need to succeed, the government is subsidising the cost of high-quality training. **Help to Grow: Management** offers businesses 12 weeks of world class leadership training through the UK's top business schools, with government covering 90% of the cost. The cost of **apprenticeship training** is 95% subsidised for SMEs that do not pay the Apprenticeship Levy.

**2.21** To support businesses to invest and grow, the temporary £1 million level of the **Annual Investment Allowance** has been extended to 31 March 2023. This is the highest level of support for capital expenditure ever provided through the Annual Investment Allowance and provides generous relief for investment across over a million SMEs. The government is also helping firms to adopt new digital technologies, with **Help to Grow: Digital**, offering eligible SMEs a 50% discount on approved software worth up to £5,000.

---

<sup>7</sup> [Government launches £500m support for vulnerable households over winter](#), HM Government, September 2021.

<sup>8</sup> [Business population estimates for the UK and regions 2021: statistical release](#), BEIS, October 2021.

**2.22** To support the decarbonisation of non-domestic buildings, the government is introducing targeted **business rates exemptions** for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible low-carbon heat networks with their own rates bill. Spring Statement announces that these measures will now take effect from April 2022, a year earlier than previously planned.

**2.23** Finally, the government is supporting small businesses to do what they do best: create jobs. In April 2020, the government increased the **Employment Allowance** from £3,000 to £4,000. Spring Statement announces a further increase from April 2022, meaning eligible employers will be able to reduce their employer NICs bills by up to £5,000 per year – this is a tax cut worth up to £1,000 per employer. As a result, businesses will be able to employ four full-time employees on the NLW without paying employer NICs. This measure will benefit around 495,000 businesses, including around 50,000 businesses which will be taken out of paying NICs and the Health and Social Care Levy entirely. In total, this means that from April 2022, 670,000 businesses will not pay NICs and the Health and Social Care Levy due to the Employment Allowance.

# 3

## Policy decisions

**3.1** The following chapter sets out all Spring Statement 2022 policy decisions. Unless stated otherwise, the decisions set out are ones which are announced at the Statement.

**3.2** Table 3.1 shows the cost or yield of all Spring Statement 2022 decisions with a direct effect on PSNB in the years up to 2026-27. This includes tax measures, changes to DEL and measures affecting annually managed expenditure (AME).

**3.3** The government is also publishing the methodology underpinning the calculation of the fiscal impact of each policy decision. This is included in 'Spring Statement 2022: policy costings' published alongside Spring Statement.

**Table 3.1: Spring Statement 2022 policy decisions (£ million)<sup>1</sup>**

	Head <sup>2</sup>	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
<b>Helping with the cost of living and supporting businesses</b>							
1	National Insurance: increase annual Primary Threshold and Lower Profits Limit to £12,570 from July 2022 Tax	0	-6,250	-5,960	-4,855	-4,330	-4,495
2	National Insurance: reduce Class 2 NICs payments to nil between the Small Profits Threshold and Lower Profits Limit Tax	0	-65	-100	-100	-95	-95
3	Income Tax: reduce basic rate from 20% to 19% from April 2024 <sup>3</sup> Tax	0	0	0	-5,335	-6,055	-5,975
4	Fuel Duty: reduce main rates of petrol and diesel by 5p per litre, and other rates proportionately, for 12 months Tax	-45	-2,385	0	0	0	0
5	Energy bills support package Spend	0	-9,050	+1,195	+1,195	+1,195	+1,195
6	Household Support Fund Spend	0	-500	0	0	0	0
7	VAT: expanding the VAT relief for energy saving materials from April 2022 Tax	0	-45	-50	-60	-60	-65
8	Employment Allowance: increase from £4,000 to £5,000 Tax	0	-425	-420	-425	-435	-440
9	Business Rates: bring forward implementation of green reliefs by one year Tax	0	-40	*	0	0	0
<b>Tackling fraud and supporting compliance</b>							
10	HMRC: investment in compliance Tax	+85	+455	+855	+815	+415	+530
11	DWP: investment in compliance Spend	+5	+55	+290	+570	+580	+780



		Head <sup>2</sup>	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
<b>Previously announced policy decisions and mechanical changes to spending assumption</b>								
<u>Mechanical changes to spending assumption</u>								
12	Spending assumption: mechanical update in line with forecast	Spend	0	0	0	0	-15	+545
<u>Higher Education reform package</u>								
13	Student finance: changes to fee caps, loan terms and eligible courses - upfront accrual of impacts (not cash) over the lifetime of loans <sup>4</sup>	Spend	+2,285	+11,150	+3,805	+4,845	+6,095	+7,035
14	<i>Memo: impact on public sector net debt - net impact of changes on cash outlays and cash repayments over the forecast period</i>		0	+115	+385	+825	+1,005	+1,065
<u>Other tax decisions</u>								
15	VAT: delay implementation of penalty reform by 9 months to January 2023	Tax	0	-5	-70	-45	-5	-5
16	Income Tax Self Assessment: January 2022 one month late filing and payment penalty waiver	Tax	-5	-10	-5	0	0	0
17	Tariff changes since Autumn Budget 2021	Tax	-15	-60	-55	-55	-55	-55
18	Income Tax and National Insurance: one year extension to the exemption for employer-reimbursed coronavirus antigen tests	Tax	0	-10	0	0	0	0
19	Updating regulations for derivatives used to hedge foreign exchange risks in share transactions from April 2022	Tax	0	+10	+5	0	-5	-5
<u>Other spending decisions</u>								
20	Special Administration Regime: Bulb Energy	Spend	0	-1,005	0	0	0	0
21	Statutory Sick Pay: extension to rebate scheme	Spend	-35	0	0	0	0	0
22	Goodwin Case (case on discrimination in Teachers' Pension Scheme)	Spend	-60	-140	-75	-50	-50	-50
23	Student finance: eligibility for those relocating from Afghanistan under the Afghan Citizens Resettlement Scheme	Spend	0	*	*	*	-5	-5
24	West Yorkshire, South Yorkshire and North of Tyne borrowing powers	Spend	-10	-40	0	0	0	0
25	Operational measures to manage constraints within the Personal Independence Payment assessment system	Spend	-30	-55	0	0	0	0
<b>Total policy decisions<sup>5</sup></b>			<b>+2,175</b>	<b>-8,415</b>	<b>-585</b>	<b>-3,500</b>	<b>-2,825</b>	<b>-1,105</b>
<b><i>Memo: Total policy decisions excluding Higher Education reform package</i></b>			<b>-110</b>	<b>-19,565</b>	<b>-4,390</b>	<b>-8,345</b>	<b>-8,920</b>	<b>-8,140</b>

	Head <sup>2</sup>	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
<b><i>o/w Total spending policy decisions</i></b>		<b>-130</b>	<b>-10,735</b>	<b>+1,410</b>	<b>+1,715</b>	<b>+1,705</b>	<b>+2,465</b>
<b><i>o/w Total tax policy decisions</i></b>		<b>+20</b>	<b>-8,830</b>	<b>-5,800</b>	<b>-10,060</b>	<b>-10,625</b>	<b>-10,605</b>

\* Negligible.

<sup>1</sup> Costings reflect the OBR's latest economic and fiscal determinants.

<sup>2</sup> Many measures have both tax and spend impacts. Measures are identified as tax or spend on the basis of their largest impact.

<sup>3</sup> Non-dividend income.

<sup>4</sup> Under the methodology announced by the Office for National Statistics in December 2018, the extension of loans to students is seen as a combination of lending and government expenditure, where the latter represents the estimated proportion that is not expected to be repaid in future. These PSNB savings reflect that we now expect a greater proportion to be repaid over the full length of the loans, which reduces the amount recorded as government expenditure up front. The PSNB savings do not translate into an equivalent reduction in Public Sector Net Debt in the scorecard period, because the effects on debt will be spread over the life of the loans, as cash paid out or repaid in each year.

<sup>5</sup> Totals may not sum due to rounding.

**3.4** With the economy continuing to recover following COVID-19 and the public finances on a stronger footing, Spring Statement announces reductions in tax to help with current cost-of-living pressures. It also sets out actions to meet the government's commitment to allow hard-working families and individuals to keep more of their earned income, and to create an environment that promotes private sector-led growth.

**3.5** HM Treasury analysis published alongside this document shows that, after the measures announced today:<sup>1</sup>

- government decisions since Spending Round 2019 have benefitted the lowest-income households the most, as a proportion of income
- the impact of government policy since Spending Round 2019 on households in the bottom four deciles is expected to be worth more than £1,000 a year, while there will have been a net benefit on average for the poorest 80% of households
- government policy continues to be highly redistributive: in 2024-25, the poorest 60% of households will receive more in public spending than they contribute in tax, and households in the lowest income decile will receive, on average, over £4 in public spending for every £1 they pay in tax<sup>2</sup>
- on average, the combined impact of personal tax and welfare decisions made since Spending Round 2019 is progressive, placing the largest burden on higher-income households as a proportion of income

## Details of policy decisions

**3.6 Increasing National Insurance thresholds** – The annual National Insurance Primary Threshold and Lower Profits Limit, for employees and the self-employed respectively, will increase from £9,880 to £12,570 from July 2022. This increase will benefit almost 30 million people, with a typical employee saving over £330 in the year from July. Around 70% of NICs payers will pay less NICs, even after accounting for the introduction of the Health and Social Care Levy. Around 2.2 million people will be taken out of paying Class 1 and Class 4 NICs and the Health and Social Care Levy entirely, on top of the 6.1 million who already do not pay NICs. July is the earliest date that will allow all payroll software developers and employers to update their systems and implement changes.

<sup>1</sup> Impact on households: distributional analysis to accompany Spring Statement 2022, HM Treasury, March 2022.

<sup>2</sup> This analysis does not include temporary measures to support households in response to the economic effects of the COVID-19 pandemic. It also does not account for behavioural change, changes in the labour market or the wider economic impacts of government policy.

**3.7 Reducing Class 2 NICs payments for low earners** – From April, self-employed individuals with profits between the Small Profits Threshold and Lower Profits Limit will not pay class 2 NICs, meaning lower-earning self-employed people can keep more of what they earn while continuing to build up National Insurance credits. Over the year as a whole, the Lower Profits Limit, the threshold below which self-employed people do not pay National Insurance, is equivalent to an annualised threshold of £9,880 between April to June, and £12,570 from July. This change represents a tax cut for around 500,000 self-employed people worth up to £165 per year.

**3.8 Increasing the Employment Allowance** – The Employment Allowance will increase from April 2022, meaning eligible employers will be able to reduce their employer NICs bills by up to £5,000 per year – a tax cut worth up to £1,000 per employer. As a result, businesses will be able to employ four full-time employees on the NLW without paying any employer NICs. This measure will benefit around 495,000 businesses, including around 50,000 businesses which will be taken out of paying NICs and the Health and Social Care Levy entirely. In total, this means that from April 2022, up to 670,000 businesses will not pay NICs and the Health and Social Care Levy due to the Employment Allowance.

**3.9 Basic rate of income tax** – The government will reduce the basic rate of income tax to 19% from April 2024. This is a tax cut of over £5 billion a year, and represents the first cut in the basic rate of income tax in 16 years. This will apply to the basic rate of non-savings, non-dividend income for taxpayers in England, Wales and Northern Ireland; the savings basic rate which applies to savings income for taxpayers across the UK; and the default basic rate which applies to a very limited category of income taxpayers made up primarily of trustees and non-residents. The change will be implemented in a future Finance Bill. A three-year transition period for Gift Aid relief will apply, to maintain the income tax basic rate relief at 20% until April 2027. The reduction in the basic rate for non-savings-non-dividend income will not apply for Scottish taxpayers because the power to set these rates is devolved to the Scottish Government. Under the agreed Fiscal Framework the Scottish Government will receive additional funding, worth around £350 million in 2024-25. It is for the Scottish Government to use this additional funding as they choose to, including on reducing income tax or other taxes, or increased spending.

**3.10 Temporary cut to fuel duty** – The government will cut the duty on petrol and diesel by 5p per litre for 12 months. This will take effect from 6pm on 23 March on a UK-wide basis. This is the largest cash-terms cut across all fuel duty rates at once ever, and is only the second time in 20 years that main rates of petrol and diesel have been cut.<sup>3</sup> This cut represents savings for households and businesses worth around £2.4 billion in 2022-23. Where practical, a proportionate cut will also apply to fuel duty rates which are lower than the main rates for petrol and diesel, including red diesel.

**3.11 Extending the Household Support Fund** – The government is continuing to provide targeted support for the most vulnerable. To help households with the cost of essentials such as food, clothing and utilities, the government is providing an additional £500 million for the Household Support Fund from April, on top of the £500 million already provided since October 2021, bringing total funding to £1 billion. In England, Local Authorities are best placed to help those in their areas who need it most and will receive an additional £421 million, whilst the devolved administrations will receive an additional £79 million in funding through the Barnett formula.

**3.12 VAT relief for energy saving materials** – The government will reverse a Court of Justice of the European Union ruling that restricted the application of VAT relief on the installation of ESMs. This will mean wind and water turbines will be added to the list of ESMs and the complex

---

<sup>3</sup> [Historical hydrocarbon oils duty rates](#), HMRC, January 2022.

eligibility conditions will be removed. The government will also increase the relief further by introducing a time-limited zero rate for the installation of ESMs. The changes will take effect from April 2022. The Northern Ireland Executive will receive a Barnett share of the value of this relief until it can be introduced UK-wide.

**3.13 Green reliefs for Business Rates** – At Autumn Budget 2021 the government announced the introduction of targeted business rate exemptions from 1 April 2023 until 31 March 2035 for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible low-carbon heat networks with their own rates bill, to support the decarbonisation of non-domestic buildings. The government is bringing forward the implementation of these measures and is announcing that they will now take effect from April 2022. Local Authorities will be compensated for the loss of income as a result of these measures and will receive new burdens funding for any administrative and IT costs. Business rates are England only and the devolved administrations will receive Barnett consequential funding in the usual way.

**3.14 R&D tax relief reform** – The government set out in the Tax Administration and Maintenance Command Paper that R&D tax reliefs would be reformed to include some cloud and data costs and refocus support on R&D carried out in the UK. The government has listened to stakeholders and can confirm that from April 2023, all cloud computing costs associated with R&D, including storage, will qualify for relief. The government remains committed to refocus support towards innovation in the UK, ensuring that the UK more effectively captures the benefits of R&D funded by the reliefs. The government recognises that there are some cases where it is necessary for the R&D to take place overseas. The government will, therefore, legislate so that expenditure on overseas R&D activities can still qualify where there are:

- material factors such as geography, environment, population or other conditions that are not present in the UK and are required for the research – for example, deep ocean research
- regulatory or other legal requirements that activities must take place outside of the UK – for example, clinical trials

To support the growing volume of R&D underpinned by mathematical advances, the definition of R&D for tax reliefs will be expanded by clarifying that pure mathematics is a qualifying cost.

Where required, legislation will be published in draft before being included in a future Finance Bill to come into effect in April 2023.

**3.15 Additional compliance resource for HMRC** – The government is investing £161 million over the next five years to increase compliance and debt management capacity in HMRC. This investment is forecast to bring in more than £3 billion of additional tax revenues over the next five years, by funding additional HMRC staff to provide greater support to taxpayers seeking to pay off accrued tax debts, and to tackle the most complex tax risks, ensuring large and mid-sized businesses pay the tax they owe.

**3.16 DWP: investment in compliance** – As announced in December 2021, the government is investing an additional £510 million to increase DWP's capacity and capability to prevent and detect fraud and error, and collect more debt. This is forecast to deliver savings of £3.15 billion by 2026-27.

**3.17 Tax credits: addressing error and fraud** – The government is investing £12 million to help claimants keep their tax credits claims accurate through regular health-check calls, compliance activity, and the use of SMS nudges. This will help prevent or correct error and fraud, and in turn support a smooth transition to Universal Credit.

**3.18 Tackling Fraud** – The government is providing £48.8 million of funding over 3 years to support the creation of a new Public Sector Fraud Authority and enhance counter-fraud work across the British Business Bank and the National Intelligence Service. The investment enables government and enforcement agencies to step up their efforts to reduce fraud and error, bring fraudsters to justice, and will recover millions of pounds.

**3.19 Levelling Up Fund second round** – The government is launching the second round of the Levelling Up Fund and publishes a refreshed Prospectus, inviting bids to come forward from all eligible organisations across the UK. This Fund provides £4.8 billion for local infrastructure projects, with £1.7 billion already allocated to 105 successful projects from the first round.

**3.20 Changing Places Fund** – The government previously made £30 million available to Local Authorities in England to install life-enhancing Changing Places toilets in existing buildings. Spring Statement is allocating £25.3 million of the Fund to install over 500 life-enhancing Changing Places toilets, in public places and tourist attractions where users want them the most. This will dramatically increase accessibility for thousands of severely disabled people who need specialised facilities. An additional £6.5 million will be allocated to areas where there is little or no provision.

**3.21 NHS Efficiency** – The government is announcing that it will double the NHS efficiency target from 1.1% to 2.2% a year, freeing up £4.75 billion to fund NHS priority areas over the next three years, and ensuring that the extra funding raised by the Health and Social Care Levy is well spent.

**3.22 Public Bodies Reviews** – The government will publish guidance for a new series of reviews of ALBs. These reviews will scrutinise the work and effectiveness of particular ALBs, aiming to deliver savings for the taxpayer of at least 5% of resource DEL budgets.

**3.23 Innovation Challenge** – The government will launch a new Innovation Challenge across central government departments to crowdsource ideas for how government can operate more effectively.

**3.24 Compute review** – This spring, the government will launch a review into the Future of Compute, building on a range of compute work across government and in particular the Government Office for Science report on Large Scale Computing. In the past decade, compute has grown as a critical general-purpose technology for productivity, prosperity, and innovation, making it essential to review our compute needs over the next decade. Led by an external expert, the review will provide recommendations to form the basis of a long-term plan for the government's approach to compute.

**3.25 AI Centres for Doctoral training** – The government will partner with industry and academia to create 1000 new AI PhDs. The government will invest £117 million to create the PhDs through Centres for Doctoral Training (CDTs), with the investment further leveraging industry and university funding. This will build on the 16 existing CDTs across the UK, to train a new generation of AI researchers to develop and use AI in areas such as healthcare, climate change and creating new commercial opportunities.

# 4

## Tax Plan

---

### Introduction

**4.1** As a result of the unprecedented crisis the United Kingdom faced with COVID-19, and the extraordinary action the government took in response, the state grew to be over half the size of the total economy.

**4.2** In 2021, the government took the responsible decisions needed to restore the public finances and fund the NHS and social care, which meant the tax to GDP ratio was forecast to reach an historic high by 2025-26.<sup>1</sup> These actions returned the public finances to a sustainable path, with debt forecast to fall over the medium term.

**4.3** Putin's invasion of Ukraine has created significant uncertainty in the global economy, particularly in energy markets. The sanctions and wider responses by the UK and its allies to the invasion are vital in supporting the Ukrainian people. While these decisions will inevitably have an adverse effect on the UK economy and the cost of living, the broader costs of inaction would have been unthinkable. And while the risks surrounding the UK's economic and fiscal outlook are higher than usual, the actions the government took last year mean that the UK has emerged from the pandemic in a strong position to face these challenges.

**4.4** The government's goal is now to reform and reduce taxes.

**4.5** The government will do that through its Tax Plan, which contains three key priorities. First, it is taking action now to help families with the cost of living. Second, it intends to cut and reform business taxes, to create a new culture of enterprise and the conditions for private sector-led growth. Finally, it will share the proceeds of higher growth fairly with working people, through further tax cuts. The government also intends to make the tax system simpler, fairer and more efficient through this plan.

**4.6** The government's approach to delivering this lower tax economy will be responsible and sustainable. It will be guided by the core principle that a prudent level of headroom must be maintained against the fiscal rules, which are that debt will continue to fall and there will be no borrowing for day-to-day spending. It will take into account the economic and fiscal risks at the time.

**4.7** Delivering the Tax Plan will be dependent on continued discipline on public spending, with no material additional spending beyond current plans. It will also depend on the broader economic outlook, taking into account uncertainty and the risk of future shocks. Reforms to simplify the tax system will also support the government's intention to bring forward broad-based tax cuts in a fiscally responsible way.

**4.8** This chapter sets out more detail on the government's aims, to provide clarity on the direction of travel for future tax policy, helping to bring stability and certainty to stakeholders. In some areas, this document sets out firm policies that the government intends to take forward; in others it sets out a spectrum of options for further consideration. Further announcements will be made in future Budgets, starting this autumn, in light of the latest economic and fiscal position.

---

<sup>1</sup> Autumn Budget 2021.

## Helping families with the cost of living

**4.9** The government understands that people are concerned about their household budgets, and that the economic uncertainty created by Putin's invasion of Ukraine is likely to put further upwards pressure on inflation.

**4.10** The government has already provided significant support in response to the cost of living, including through cuts to the Universal Credit taper rate and increases to work allowances to make sure work pays; the £9 billion package announced in February to help households with energy bills this year; and freezing alcohol duties and fuel duty to keep costs down. Spring Statement sets out additional support, through the 5p per litre cut in fuel duty that will be in place for 12 months; an extension of the Household Support Fund and through a cut to VAT on the installation of energy saving materials.

**4.11** The improved fiscal position means the government can now also begin to deliver on its commitment to reducing the tax burden on working people, starting with an increase in the amount of money that can be earned tax-free.

**4.12** From April this year, the nation's top domestic priority of health and social care has a new, dedicated and sustainable source of revenue as demand on it grows. Every penny collected from the Levy goes directly to the NHS and social care.

**4.13** However, the government has been clear that the majority of the cost should be borne by those with the broadest shoulders. Spring Statement therefore announces an increase in the annual National Insurance Primary Threshold and Lower Profits Limit from £9,880 to £12,570, aligning it with the income tax personal allowance from July. This is the earliest date that will allow all payroll software developers and employers to update their systems and implement changes.

**4.14** This increase will ease the burden on hard-working taxpayers, allowing people to keep more of their earned income. Almost 30 million people will benefit, with a typical employee saving over £330 in the year from July. Around 70% of NICs payers will pay less NICs, even after accounting for the introduction of the Health and Social Care Levy. Around 2.2 million people will be taken out of paying Class 1 and Class 4 NICs and the Health and Social Care Levy entirely, on top of the 6.1 million who already do not pay NICs.

**4.15** It also brings into alignment the starting threshold for NICs with that of income tax. As NICs is only paid on earned income, whereas income tax is paid on a much wider range of income, such as property and pensions, this makes the taxation of income fairer. These thresholds will remain aligned.

**4.16** Spring Statement announces that from April 2022 self-employed individuals with profits between the Small Profits Threshold and Lower Profits Limit will continue to build up National Insurance credits but will not pay any Class 2 NICs. Taken together, these measures will meet the government's ambition to ensure that the first £12,500 earned is tax free.

**4.17** This brings the total of government support for the cost of living to over £22 billion in 2022-23.<sup>2</sup>

## Creating the conditions for private sector led growth

**4.18** As set out by the Chancellor at the Mais lecture on 24 February, the government considers that a new culture of enterprise is essential to drive growth through higher productivity. While UK productivity is higher than the average across the OECD, it is lower than in some of the UK's

---

<sup>2</sup> [Government support for the cost of living factsheet](#), March 2022.

key comparator countries. In 2019, productivity was on average 16% higher in the US, France and Germany than in the UK.<sup>3</sup> Stronger growth in productivity will drive improvements in living standards and support levelling up across the UK.

**4.19** The government wants to create the conditions for the private sector to invest more, train more and innovate more. This includes cutting and reforming taxes to support these aims.

## Capital

**4.20** Investment is a key driver of productivity growth. By adding to the economy's capital stock and improving the skills of the workforce, the economy can produce more with the same input from workers. Investments in machinery and improved skills have delivered higher levels of output for the same amount of labour, throughout history and across all sectors of the economy.

**4.21** The government is delivering on its ambitious capital plans and will invest over £600 billion in public sector gross investment over the next 5 years, reaching the highest sustained levels of PSNI as a proportion of GDP since the late 1970s.<sup>4</sup>

**4.22** However, business investment has been a long-standing weakness in the UK. In 2019, business investment accounted for 10% of GDP in the UK, compared with 14% on average across the OECD.<sup>5</sup> Lower investment has been a key driver of the UK's lower productivity compared to Germany and France.

**4.23** The impact of the pandemic has affected recent business investment in the UK. Business investment is now recovering after falling heavily during the pandemic, growing by 0.9% in the final quarter of last year, but remains 10.6% below the pre-pandemic level.<sup>6</sup>

**4.24** The OBR expect business investment to fully recover in 2022. This has been supported by the super-deduction announced by the government in 2021.

**4.25** The UK needs to build on this momentum to encourage stronger growth in business investment and hence productivity. To achieve this, the government will cut and reform taxes on capital investment to help drive higher growth.

**4.26** Capital allowances allow businesses to write-off their costs of qualifying capital investments against their taxable profits over time. The extent and rate of write-off can impact business investment decisions.

**4.27** In March 2021, the government announced the super-deduction – temporary enhanced first year capital allowances that will end in April 2023. It is the biggest two-year business tax cut in modern British history, announced in extraordinary circumstances.<sup>7</sup>

**4.28** Ahead of April 2023, the government is considering reforms to best support future business investment. The super-deduction is expected to cost around £10 billion a year at its peak. The government's priorities are to ensure that any future support aligns with the government's fiscal objectives and that taxpayer money is effectively targeted. As part of this the government will look at how reforms could best support economic growth, and ensure the UK remains a competitive place to invest.

---

<sup>3</sup> Calculations based on OECD data.

<sup>4</sup> OBR Public Finances Databank.

<sup>5</sup> Calculations based on OECD data.

<sup>6</sup> GDP first quarterly estimate, UK: October to December 2021.

<sup>7</sup> Based on OBR Policy Measures Database.



**4.29** The super-deduction allows companies to write-off the costs of qualifying plant and machinery investments against taxable profits (excluding cars, second-hand assets and assets held for leasing). It provides a deduction of 130% of qualifying main rate plant and machinery expenditure (instead of 18% through normal writing down allowances), and 50% of qualifying special rate plant and machinery (instead of 6%).

**4.30** Once the super-deduction has ended, the UK's capital allowances regime will include:

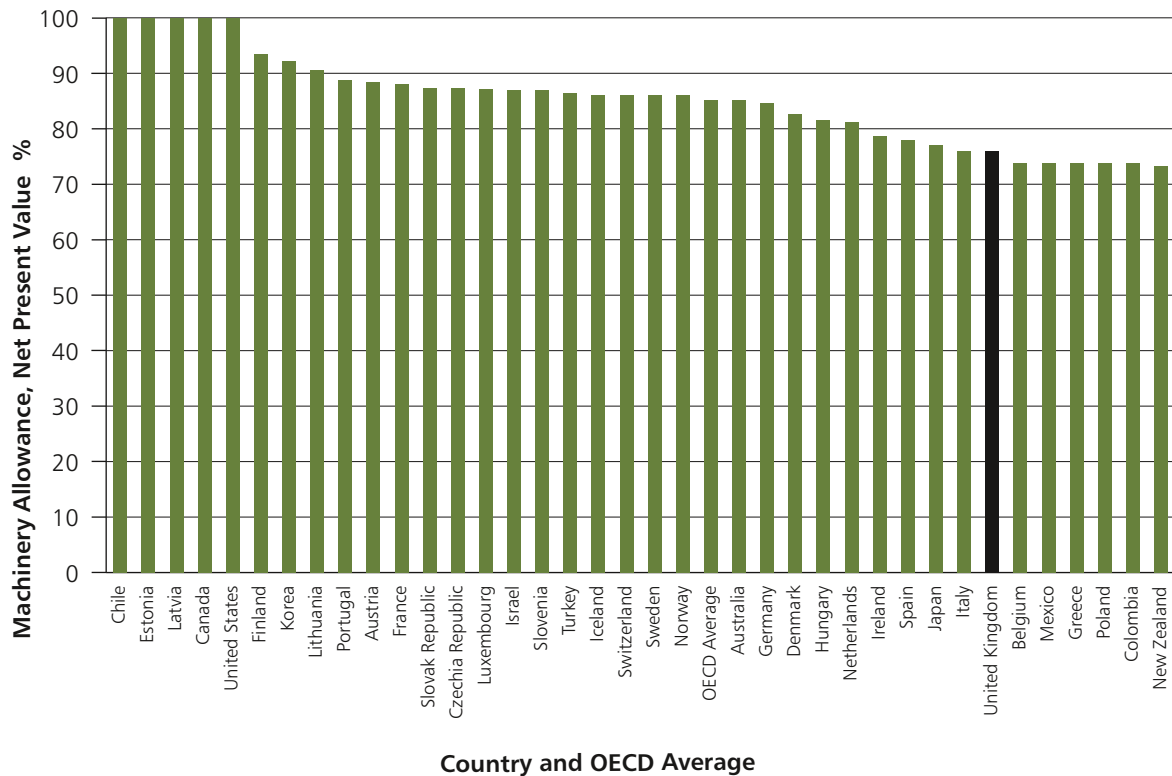
- the Annual Investment Allowance: this allows businesses to deduct in-year the full value (100%) of qualifying plant and machinery investment (excluding cars) in one go, up to a limit of £200,000. That limit has been temporarily increased to £1 million until 31 March 2023. It is available to sole traders and partnerships, as well as to incorporated companies, covering the qualifying plant and machinery expenditure of over 99% of businesses
- Writing Down Allowances: these allow businesses to make deductions of the value of plant and machinery investments at a deemed rate, in calculating their taxable profits. There are two rates: 18% for main rate assets and 6% for special rate assets (those that are integral features of buildings; typically have usable lives over 25 years; and cars with CO2 emissions above a set threshold)
- Structures and Buildings Allowance: this allows businesses to deduct 3% a year of the cost of construction and renovation of non-residential structures and buildings
- allowances for specific assets or activities: including 100% First Year Allowances for zero-emission cars; and 100% in-year deduction for qualifying capital expenditure on R&D. The UK's regime is relatively simple. For plant and machinery capital investments, there are generally only two rates of Writing Down Allowances; businesses may pool assets in order to write down the total value; and under the Annual Investment Allowance, businesses may claim 100% of their qualifying expenditure, up to a limit, in the year in which it is incurred.

**4.31** However, while no other country in the G7 allows businesses to claim 100% of expenditure on a permanent and uncapped basis (also known as full expensing), without the super-deduction, the UK's generosity lags competitors.<sup>8</sup> An analysis of the Net Present Value of different countries' capital allowances suggests that despite the UK's highly competitive headline corporation tax rates, the overall tax treatment provided for capital investment is less generous than the OECD average.

---

<sup>8</sup> Tax Foundation, Capital Cost Recovery 2021, Capital Allowances, 2021.

**Chart 4.1: Net Present Value of machinery Capital Allowances in OECD countries, 2020**



Source: <https://taxfoundation.org/capital-allowances-capital-cost-recovery-2021/#Economic>

**4.32** It is important that the government prioritises improving the areas that have the biggest impact, to ensure the UK tax system is more effective at driving growth. Below are some illustrations of the types of changes that the government could make, with indicative costings.<sup>9</sup> Some changes may be attractive due to their simplicity, upfront support and generosity. However, they might also come at a high cost for comparatively modest impact on business investment decisions. Conversely, other changes might be more complex, but also more effective. It is possible that a combination of changes could achieve the best balance across simplicity, generosity and impact on investment.

- **Increase the permanent level of the Annual Investment Allowance, for example to £500,000.** At its peak, this could cost around £1 billion in a single year. Previously an Annual Investment Allowance threshold of £1 million has covered around 25% of Annual Investment Allowance eligible plant and machinery expenditure.<sup>10</sup>
- **Increasing Writing Down Allowances for main and special rate assets from their current levels of 18% and 6% to 20% and 8%.** At its peak, this could cost £2 billion in a single year. This would particularly support those investing above the permanent Annual Investment Allowance level.
- **Introduce a First Year Allowance for main and special rate assets where firms can deduct, for example, 40% and 13% in the first year, with the remaining expenditure written down at standard Writing Down Allowances.** At its peak,

<sup>9</sup> Costings are indicative HMRC estimates, not certified by the OBR, and subject to change. Costings apply to 2021-22 to 2026-27. If enacted, these policies will accelerate firms' tax reliefs on new capital investment, boosting the tax relief they receive each year. Whilst most exchequer costs may initially decline after peaking, all of these policies will also have a long-run cost.

<sup>10</sup> HMRC estimate, based on Annual Investment Allowance claims reported in Corporation Tax returns and Self-Assessment returns in 2019-20, as a proportion of businesses' reported plant and machinery expenditure on assets excluding cars.

First Year Allowances of 40% and 13% could cost £3 billion in a single year. This would particularly support those investing above the permanent Annual Investment Allowance level. However, it may add a layer of complexity to the UK's capital allowances regime.

- **Introduce an Additional First Year Allowance, to bring the overall amount that can be claimed to greater than 100% of the initial cost.** An additional capital allowance of 20% in the first year, on top of standard Writing Down Allowances on 100% of the initial cost across the first and subsequent years. This would spread relief over time, while giving relief on over 100% of the initial capital cost. At its peak, an additional allowance of 20% could cost over £4 billion in a single year. It may add a layer of complexity to the UK's capital allowances regime.
- **Introduce full expensing, to allow businesses to write off the costs of qualifying investment in one go.** No other country in the G7 has implemented this on a permanent basis. Full expensing of plant and machinery could cost significantly more than the above options. At its peak, this could cost over £11 billion in a single year.

**4.33** These changes relate to capital expenditure on general plant and machinery. However, the government could also consider changes to other allowances, such as the **Structures and Buildings Allowance**, or new reliefs targeted at specific investments (such as the current **Enhanced Capital Allowances** within designated Freeport areas).

**4.34** The government is considering options ahead of Budget later this year, and as part of this will continue to review the latest evidence, including the impact of the super-deduction and views of businesses.

## People

**4.35** The UK lags behind its international peers in adult technical skills: just 18% of 25–64-year-olds hold vocational qualifications, a third lower than the OECD average.<sup>11</sup> This is why Spending Review 2021 increased total government spending on skills in England by £3.8 billion by 2024-25.

**4.36** Government spending alone will not address this challenge. With four in five of the UK's 2030 workforce already in employment, training as part of work is essential – but UK employers spend just half the European average on training for their employees.<sup>12</sup> Furthermore, less than 10% of the spending on training by UK employers goes to high-quality formal training offered by external providers.<sup>13</sup>

**4.37** The government has already transformed apprenticeships – which are jobs with training for anyone of any age – to align with employer needs. Combined with the introduction of the Apprenticeship Levy, the government has created hypothecated funds to support employer investment in the high-quality training an apprenticeship can deliver. Where these funds are not spent by levy payers, they are allocated to non-levy paying employers who receive support for 95% of the cost of high-quality apprenticeship training. This means the largest UK employers pay for the cost of apprenticeship training in the smallest employers, so that the largest employers contribute the most to the cost of training the UK's workforce.

**4.38** The government recognises that employers have frustrations with the way that these Apprenticeship Levy funds can be spent within the apprenticeships system and is delivering a suite of improvements to address these. As part of this, the government is looking at how more flexible apprenticeship training models can be supported, while ensuring apprenticeships remain a high-quality training route for employees of all ages and stages of their career.

---

<sup>11</sup> OECD, Education at a Glance, 2020.

<sup>12</sup> Industrial Strategy Council, UK Skills Mismatch in 2030, 2019; CIPD underinvestment in training, analysis of Eurostat data, 2019.

<sup>13</sup> Employer Skills Survey (2019).

**4.39** The government's ambition is to encourage greater levels of private sector investment in employee training, both for apprentices and for employees more generally. The UK corporation tax system already allows companies to deduct any costs of staff training fully from taxable profits, where this is relevant to their business. However, even though the UK tax system provides the same level of reward as in most other countries, the amount UK companies spend on training their employees remains relatively low.

**4.40** The government will consider whether further intervention is needed to encourage employers to offer the high-quality employee training the UK needs. This will include examining whether the current tax system – including the operation of the Apprenticeship Levy – is doing enough to incentivise businesses to invest in the right kinds of training.

## Ideas

**4.41** Innovation, technological change and organisational arrangements all influence multi-factor productivity, the efficiency with which capital and skills are combined to produce output. This third channel of productivity growth accounts for around half of the UK's productivity growth over the last 50 years. Multi-factor productivity growth was faster in the UK than in other advanced economies in the years preceding the financial crisis, but has slowed by more since then.

**4.42** Autumn Budget 2021 announced that public investment in R&D will increase to record levels: £20 billion per year by 2024-25; significant progress towards the government's ambition to spend £22 billion by 2026-27. This landmark funding for science and innovation will help to deliver the government's science superpower ambitions and tackle the great challenges facing the world, whether climate change or health emergencies.

**4.43** While the government has an important role to play in supporting science and innovation, public investment cannot on its own be expected to drive productivity growth and make the UK the most innovative economy in the world. Private enterprises will create the technologies, products and services which reshape lives and livelihoods, and government is acting to create the conditions for private sector innovation to flourish.

**4.44** Through programmes like British Patient Capital, the Future Fund and the Future Fund: Breakthrough, the government has increased access to finance for innovative, high-growth and R&D intensive companies. Tax reliefs are available for individuals investing in start-ups, and efforts to reform Solvency II and the pensions charge cap to unlock institutional capital into illiquid assets are ongoing. The government is also reforming listing rules to make it easier for companies to raise public funding.

**4.45** High skilled immigration plays a disproportionate role in driving innovation; around half the UK's fastest growing businesses have at least one non-UK-born co-founder, and non-UK born staff account for around 40% of academic staff in engineering, technology, and biological, mathematical and physical sciences at UK universities.<sup>14,15</sup> That is why the government is focused on creating a visa regime that will attract highly skilled and entrepreneurial individuals from across the world.

**4.46** The flagship Help to Grow programme has launched to support SME leaders to access management training from the UK's leading business schools and adopt productivity-enhancing software.

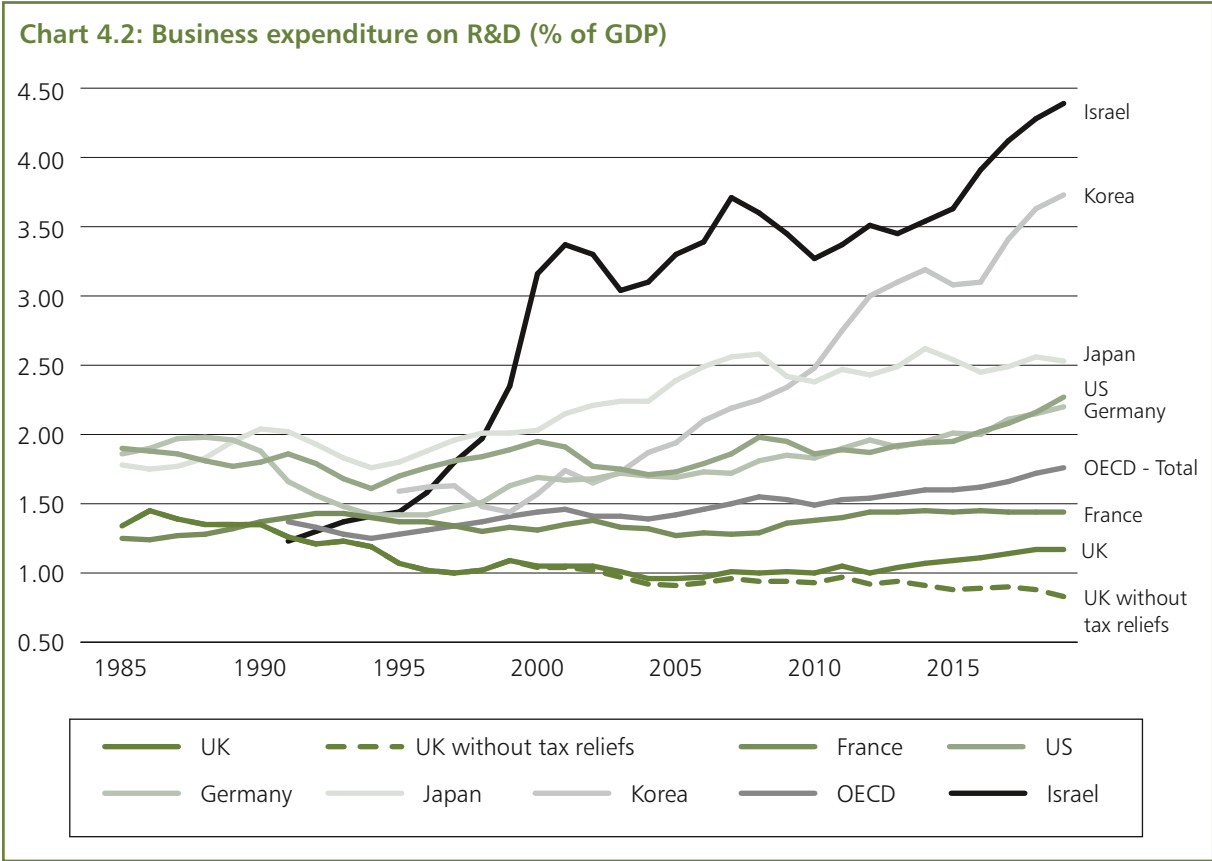
---

<sup>14</sup> Job Creators: The Immigrant Founders of Britain's Fastest Growing Businesses, Sam Dumitriu and Amelia Stewart, The Entrepreneurs Network, 2019.

<sup>15</sup> Higher Education in Facts and Figures 2021, Universities UK, 2021.

**4.47** These measures are significant, but ultimately businesses will need to invest more in R&D and the UK’s R&D tax reliefs have an important role to play in doing this. Spring Statement outlines options the government is considering, to ensure the system is globally competitive while properly incentivising innovation.

**4.48** The UK has one of the most generous R&D tax relief systems in the world, spending, as a percentage of GDP, more than any other country in the OECD. Since 2007 spend has increased from 0.05% to 0.34% of GDP in 2019. Despite this, the UK has not seen the desired results, with self-financed business R&D only rising from 1.0% to 1.2% of GDP, which is less than half the OECD average.<sup>16</sup>



**4.49** In addition, HMRC evaluations suggest that the Research & Development Expenditure Credit (RDEC) stimulates between £2.40-£2.70 of additional private R&D expenditure for each £1 of tax relief claimed, while the SME scheme only stimulates £0.60-£1.28.<sup>17,18</sup> The government is looking to understand why these figures are so different and what further changes might be needed to ensure that our tax subsidies incentivise companies most effectively to invest in additional R&D.

**4.50** The government announced a review of the R&D reliefs in spring 2021 with the objectives of ensuring the UK remains a competitive location for cutting edge research and that the tax reliefs provided to businesses continue to be fit for purpose.

**4.51** In November 2021 the government set out detail on a series of initial measures to reform the R&D tax relief system. These measures included the expansion of qualifying expenditures to cover data and some cloud computing costs, as well as refocusing R&D relief on activity carried out in the UK. In 2019, UK companies claimed tax relief on £47.5 billion of R&D expenditure,

<sup>16</sup> OECD (2021). “R&D Tax Incentives: United Kingdom, 2021”, [www.oecd.org/sti/rd-tax-stats/united-kingdom.pdf](http://www.oecd.org/sti/rd-tax-stats/united-kingdom.pdf), Directorate for Science, Technology and Innovation, December 2021.

<sup>17</sup> Evaluation of the research and development tax relief for small and medium-sized enterprises, November 2020.

<sup>18</sup> Evaluation of the research and development expenditure credit, November 2020.

but the ONS estimates that businesses only carried out £25.9 billion of privately financed R&D in the UK.<sup>19,20</sup> Spring Statement announces further detail on these measures as well as a further change to expand qualifying expenditure to cover R&D underpinned by pure mathematics.

**4.52** First, as set out in detail in chapter 3, the government recognises that there are cases where it is necessary to undertake R&D outside of the UK. Government will legislate so vital R&D undertaken by businesses based in the UK can continue to qualify for tax reliefs where there is a material or regulatory requirement for this work to be carried out overseas.

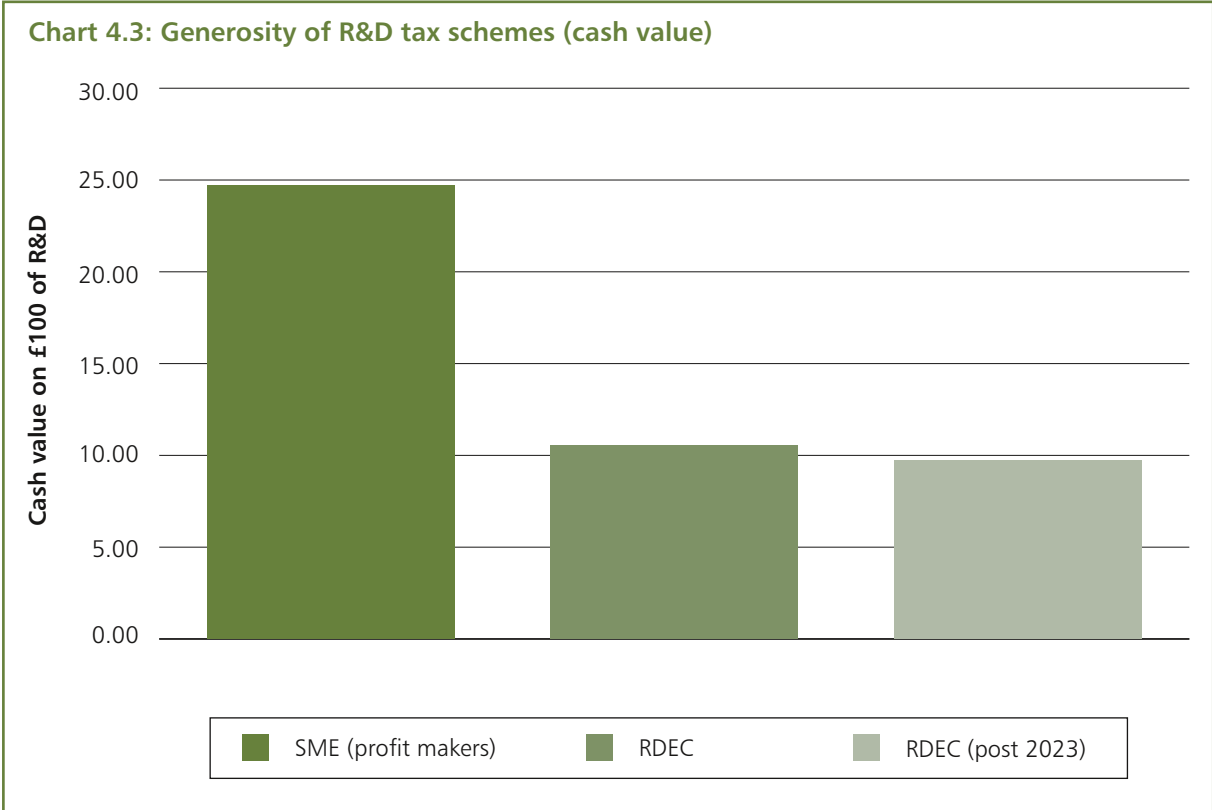
**4.53** Second, the government has listened to stakeholders and now intends to include all cloud costs associated with R&D in the scope of the reliefs. This will allow companies to claim for costs related to the storage of vital data, supporting data-heavy research such as genomic sequencing.

**4.54** Finally, the government recognises the growing volume of R&D being undertaken which is underpinned by pure mathematics. Spring Statement announces an expansion of the qualifying expenditure to include all mathematics. This reform will support nascent sectors where the UK has a comparative advantage such as Artificial Intelligence, quantum computing and robotics while also supporting strong sectors such as manufacturing and design.

**4.55** Where required, legislation will be published in draft before being included in a future Finance Bill, for these measures to come into effect in April 2023.

**4.56** These are important initial reforms, but it is right that the government considers further steps to ensure the UK’s R&D tax reliefs are as effective as possible and, importantly, deliver the best possible value for taxpayers.

**4.57** To ensure the effective targeting of the UK’s R&D relief the government will consider increasing the generosity of RDEC to boost R&D investment in the UK. This would rebalance the schemes and make RDEC more internationally competitive.



<sup>19</sup> [Research and Development Tax Credits Statistics](#), September 2021.

<sup>20</sup> [R&D Tax Reliefs Report](#), November 2021.

**4.58** In addition to making the RDEC scheme more attractive, the government will consider what more can be done to tackle the abuse of R&D tax reliefs, particularly in the SME scheme, ahead of Budget 2022. As the Public Accounts Committee and National Audit Office have made clear, abuse of the R&D tax reliefs is an issue that must be tackled. The government announced in November the creation of a new cross-cutting HMRC team focused on tackling abuse of these reliefs.

**4.59** The government is continuing the review of R&D tax reliefs and further announcements will be made in the autumn.

**4.60** Growing businesses need skilled people to put their innovation into practice. Those companies with the highest growth prospects can face the greatest difficulties in attracting and retaining specialist skills. At Budget 2020, the government launched a review of the Enterprise Management Incentive (EMI) scheme, to ensure it provides support for high-growth companies to recruit and retain the best talent so they can scale up effectively, and to examine whether more companies should be able to access the scheme. The government has concluded that the current EMI scheme remains effective and appropriately targeted. However, the scope of the review will be expanded to consider if the other discretionary tax-advantaged share scheme, the Company Share Option Plan, should be reformed to support companies as they grow beyond the scope of EMI.

## Sharing the proceeds of growth with working people

**4.61** The latest forecast shows that the government is on track to meet the fiscal principles set out above, including maintaining a prudent level of headroom against the fiscal rules.

**4.62** Increasing the National Insurance Primary Threshold and Lower Profits Limit will reduce the burden of tax on working people and simplify the tax system. The Primary Threshold and Lower Profits Limit will remain aligned with the income tax personal allowance.

**4.63** The government intends to go further, with additional reductions in personal tax, delivered in a responsible way that is consistent with sustainable public finances.

**4.64** The government is therefore also cutting the basic rate of income tax by one percentage point to 19% from April 2024 – provided that the fiscal principles outlined in paragraphs 4.6 to 4.7 are met in future.

**4.65** Income tax is a broad-based tax paid by over 30 million individuals, with most households having at least one member who pays income tax. This is a tax cut of over £5 billion a year. Across this income tax cut and the National Insurance Primary Threshold and Lower Profits Limit increase, the Spring Statement delivers the biggest net cut in personal taxes in over a quarter of a century.<sup>21,22,23</sup>

**4.66** The reduction in the basic rate for non-savings-non-dividend income will not apply for Scottish taxpayers because the power to set these rates is devolved to the Scottish Government. Under the agreed Fiscal Framework the Scottish Government will receive additional funding, worth around £350 million in 2024-25. It is for the Scottish Government to use this additional funding as they choose to, including on reducing income tax or other taxes, or increased spending.

---

<sup>21</sup> ONS Public Sector Finances, 2022.

<sup>22</sup> OBR Policy measures database, 2021.

<sup>23</sup> OBR Economic and Fiscal Outlook, 2022.

**4.67** Alongside cutting taxes for working people, the government will consider where there is scope for the tax system to be reformed and improved. The tax system should be simple, efficient, and fair. Identifying reforms which improve the fiscal sustainability of the system can also support the government's aim of bringing forward broad-based tax cuts in a fiscally responsible way.

**4.68** For example, tax reliefs and allowances play a vital role in ensuring that the tax system works effectively and that it encourages positive economic and social outcomes. There are, however, over a thousand tax reliefs and allowances and, as the OBR have pointed out, this has a considerable fiscal impact and can create complexity in the tax system.<sup>24</sup> Reliefs and allowances can also create unfairness and inconsistency in how people are taxed.

**4.69** The government will therefore continue to consider reform to tax reliefs and allowances, to better support a fair, efficient, simple, and sustainable tax system, and confirm plans ahead of 2024.

## Conclusion

**4.70** The Tax Plan is a key part of the government's aim of driving economic growth across the country, while making sure the proceeds of growth are shared fairly. The plan will be delivered in a responsible way, guided by the core principle that a prudent level of headroom must be maintained against the fiscal rules.

**4.71** Spring Statement sets out the government's plan to align the National Insurance Primary Threshold and Lower Profits Limits with the income tax personal allowance, from July 2022. This is a significant step in delivering on the government's ambition to cut taxes, supporting working families with the cost of living.

**4.72** At Budget 2022, the government will set out its plans for reform of the business tax system, to ensure it supports businesses to invest and to scale up, and drives growth through investment in capital, people and ideas. The intention is for key changes here to be brought in from April 2023.

**4.73** The government will cut the basic rate of income tax from April 2024, provided that the fiscal principles set out above are met in future. The government will confirm plans for reforms to reliefs and allowances ahead of implementation.

---

<sup>24</sup> Fiscal Risks Report, 2019, p.95.





# List of abbreviations

---

ALB	Arms Length Body
AME	Annually Managed Expenditure
BEIS	Department for Business, Energy & Industrial Strategy
CDEL	Departmental Capital Totals
CGNCR	Central Government Net Cash Requirement
CPI	Consumer Prices Index
DEL	Departmental Expenditure Limit
GDP	Gross Domestic Product
HMRC	HM Revenue & Customs
IFS	Institute for Fiscal Studies
IMF	International Monetary Fund
MPC	Monetary Policy Committee
NICs	National Insurance Contributions
NLW	National Living Wage
OECD	Organisation for Economic Co-operation and Development
OFGEM	Office of Gas and Electricity Markets
ONS	Office for National Statistics
PSCE	Public Sector Current Expenditure
PSGI	Public Sector Gross Investment
PSNB	Public Sector Net Borrowing
PSNI	Public Sector Net Investment
R&D	Research & Development
RDEC	Research & Development Expenditure Credit
RDEL	Departmental Resource Totals
SME	Small and Medium-sized Enterprise
TME	Total Managed Expenditure
VAT	Value-Added Tax

## LIST OF TABLES

---

### Chapter 1

Table 1.1:	Summary of the OBR's central economic forecast (percentage change on year earlier, unless otherwise stated)
Table 1.2:	Changes to the OBR's forecast for public sector net borrowing since October 2021 (£ billion)
Table 1.3:	Overview of the OBR's fiscal forecast (% GDP)
Table 1.4:	Resource DEL (RDEL) excluding depreciation
Table 1.5:	Departmental Capital Budgets – Capital DEL (CDEL)
Table 1.6:	Departmental Budgets for 2021-22
Table 1.7:	Total Managed Expenditure (TME)
Table 1.8:	Financial Transactions from 2021-22 to 2026-27
Table 1.9:	Departmental Capital Financial Transactions Budgets

### Chapter 3

Table 3.1:	Spring Statement 2022 policy decisions (£ million)
------------	--

## LIST OF CHARTS

---

### Chapter 1

Chart 1.1:	Quarterly real GDP shortfall to pre-pandemic levels: G7 nations and Spain
Chart 1.2:	Contributions to CPI inflation
Chart 1.3:	Public sector net debt
Chart 1.4:	Debt interest to revenue ratio with illustrative interest rates and RPI shocks

### Chapter 4

Chart 4.1:	Net Present Value of machinery Capital Allowances in OECD countries, 2020
Chart 4.2:	Business expenditure on R&D (% of GDP)
Chart 4.3:	Generosity of R&D tax schemes (cash value)





## HM Treasury contacts

This document can be downloaded from  
[www.gov.uk](http://www.gov.uk)

If you require this information in an alternative  
format or have general enquiries about  
HM Treasury and its work, contact:

Correspondence Team  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

Tel: 020 7270 5000

Email: [public.enquiries@hmtreasury.gov.uk](mailto:public.enquiries@hmtreasury.gov.uk)

E02726399

ISBN: 978-1-5286-3235-5