Growth

1.74 The UK economy is facing rapid global change. The growth of emerging economies, such as China, India and Brazil, and competition from established economies such as Germany, are creating new challenges for the UK – and new opportunities. To enable the UK to compete in this global race and the economy to rebalance, the Government is delivering an ambitious programme of structural reforms that will strengthen the economy and support those who want to work hard and get on. These reforms are a key part of the Government's economic strategy, alongside fiscal consolidation, monetary activism and financial sector reform.

1.75 The *Plan for Growth* set out the Government's programme of structural reform, with further reforms announced at Autumn Statement 2011, Budget 2012 and a further package in September.[27] A full update on progress has been published alongside this Autumn Statement.[28] The Government has already delivered:

- radical reform of the school system to raise standards and improve choice for parents – with 2,543 academies now open and 192 free schools either open or approved;
- reforms to put the UK's world-class higher education system on a sustainable footing and radically improve the information available to students, creating a more responsive system in which institutions will have to appeal to prospective students and be respected by employers;
- root and branch reform of the planning system, reducing more than 1,000 pages of guidance to just over 50 and introducing a strong presumption in favour of sustainable development;
- a programme of infrastructure investment and reform that has helped to increase total public and private UK infrastructure investment from £29 billion a year between 2005 and 2010 to £33 billion between 2010 and 2012;
- the Welfare Reform Act 2012, the biggest reform of welfare in 60 years. From October 2013, Universal Credit will simplify the benefits system and ensure that work always pays; and
- 457,200 apprenticeship starts in 2010-11 and a further 502,500 in 2011-12, taking the number of apprenticeship starts so far this Parliament to almost 1 million.

1.76 Since Budget 2012, the Government has announced further reforms including a major housing and planning package. The Government has committed to provide £934 million through capital funding and financial transactions and up to £10 billion of guarantees across the UK to support the building of first-time buyer, affordable and rented homes. The Government's Growth and Infrastructure Bill, currently before Parliament, will remove unnecessary bureaucracy to make the planning system faster and more efficient.

1.77 Building on this progress, the Government will equip the UK to succeed in the global race by:

- developing the UK's infrastructure to meet the needs of the economy with a **£5.5 billion capital package and support for long-term private investment including in new roads, science infrastructure and free schools;**
- creating one of the most competitive tax systems in the world, including a **further 1 per cent cut in the main rate of corporation tax from April 2014 to 21 per cent** and, to support small and medium sized businesses in particular, **a significant temporary increase in the Annual Investment Allowance, from £25,000 to £250,000 for two years from 1 January 2013;**

[27] *Plan for Growth,* HM Treasury and the Department for Business, Innovation and Skills, March 2011.
[28] Available on the HM Treasury website at www.hm-treasury.gov.uk.

- **devolving a greater proportion of growth-related public spending to local areas from April 2015, in response to Lord Heseltine's review of economic growth;**[29]
- ensuring businesses, particularly small businesses, can access finance and support. **The Government will create a Business Bank and enable UK Export Finance (UKEF) to provide up to £1.5 billion in loans to finance small firms' exports;** and
- **introducing a package of reforms to promote exports and inward investment, including additional funding to UK Trade and Investment (UKTI) to deliver more services to small and medium size exporters and increasing funding for the GREAT campaign to showcase Britain's capabilities.**

1.78 The Autumn Statement commits £5.5 billion of additional infrastructure investment and support for business over the current spending review period. This funds additional investment in roads, housing and local infrastructure, regional growth and business, exports, science, and schools and colleges. In addition this Autumn Statement provides £1 billion of funding for a new Business Bank, up to £1.5 billion for additional lending by UKEF and a guarantee to support £1 billion of borrowing to extend the Northern Line to Battersea, to enable the commercial redevelopment of Battersea Power Station and the surrounding site. Public investment as a share of GDP is now higher on average in this Parliament than under the previous government.

1.79 As a consequence of the spending decisions taken at this Autumn Statement the devolved administrations will benefit from significant additional capital funding over the course of the current spending review. The Scottish Government will receive an additional £394 million of capital funding, the Welsh Government an additional £227 million, and the Northern Ireland Executive an additional £132 million.

1.80 The OBR has increased its forecast so that the level of GDP is 0.1 per cent higher at the end of the forecast period largely because of increased capital spending, the reduction in the main rate of corporation tax and the increase in the Annual Investment Allowance. Consistent with most forecasters, the OBR has not adjusted its GDP forecast for the effects of the Government's supply-side reforms, given uncertainties over the timing and magnitude of the impacts on growth. These reforms will support the UK's long-term economic potential and help to create new jobs, but experience suggests that basing economic forecasts on assumptions about future improvements in economic performance is extremely risky.

Developing the UK's infrastructure

1.81 High quality infrastructure must be in place for the UK to remain competitive. The private sector, local government and central government all have a role in reversing historic underinvestment in the UK's infrastructure so that UK businesses can compete and grow. This Autumn Statement builds on the work of the National Infrastructure Plans published in 2010 and 2011. A comprehensive National Infrastructure Plan delivery update has been published alongside the Autumn Statement showing that annual investment in infrastructure has risen from £29 billion over the period 2005 to 2010 to £33 billion over the period 2010 to 2012.[30]

Long-term certainty for energy

1.82 The Energy Bill, published in November 2012, will provide certainty to investors to bring forward up to £110 billion of investment in new infrastructure to meet the UK's future energy needs. **The Government's Gas Generation Strategy will set out its view of the expected role for gas in the coming years.** The Government expects up to 26 gigawatts (GW) of new gas capacity could be required by 2030 on current carbon budgets. If the fourth carbon budget is revised upwards and emissions reductions are more gradual, then up to 37 GW of new plant could be required. Support available for low carbon electricity investment through the Levy

[29] *No Stone Unturned,* The Rt Hon the Lord Heseltine of Thenford CH, October 2012.
[30] *National Infrastructure Plan: update 2012*, available at www.hm-treasury.gov.uk.

Control Framework up to 2020 will be capped at up to £7.6 billion per year (in 2012 prices) in 2020-21 – more than triple the £2.35 billion available in 2012-13. This will allow generators from both renewables and gas to invest with confidence and provide protection for consumers.

1.83 To maximise economic production from UK natural gas resources, **the Government will also establish an Office for Unconventional Gas. This will join up responsibilities across government, provide a single point of contact for investors and ensure a simplified and streamlined regulatory process. The Government will also consult on the tax regime for shale gas.**

Public investment to support growth

1.84 The Government is committed to ensuring that the road network is fit for the UK's future transport needs. The Government is investing an additional £1.5 billion, of which £1 billion will be invested within this spending review period, to enhance and improve the road network and reduce congestion. The Government will:

- **invest £378 million to upgrade key sections of the A1 (Lobley Hill and Leeming to Barton) in the north east, bringing this route from the M25 to Newcastle up to motorway standard;**
- **expand capacity through building a new link between the A5 and M1 in the east of England and dualling the A30 Temple to Carblake in the south west, an investment of £157 million;**
- **tackle congestion with £150 million of investment for improvement works to Junction 30 of the M25 in London starting in 2015 and £10 million, funded from within the Department for Transport's existing budget, on improvement works at Junction 12 of the M40 in the west midlands, starting in 2013;**
- **provide £270 million for priority national and local projects to remove bottlenecks and support development;**
- **invest an additional £333 million in the essential maintenance of our national and local road network to renew, repair and extend the life of our roads;**
- **invest £42 million to develop the pipeline of potential Highways Agency road schemes for investment in the next spending review period;** and
- **£42 million investment in the Sustainable Transport Fund for cycling infrastructure, including cycling safety.**

1.85 It is the Government's ambition to reduce the time it takes to plan and deliver new roads by up to a half. **The Government will pilot a new delivery model for upgrades to the M1, M3, M6 and the A160/180 at Immingham.** It is the Government's intention that these pilots will help to speed up the delivery of major road schemes in the future.

1.86 The Government is assessing the feasibility of new ownership and financing models for the strategic road network, and will report on progress in the new year.

1.87 The Government will do more to protect homes and businesses from flooding and unlock sites for development. **The Government will allocate an additional £120 million over the current spending review period to building new flood defences.** Half of this funding will be awarded to the strongest bids from growth-enabling schemes such as those being developed in Sheffield, Ipswich, Leeds, Exeter and Derby. The remainder will be used to accelerate planned schemes within the wider Environment Agency programme.

1.88 At Budget 2012, the Government committed to providing an additional £50 million to support a second wave of cities in the Government's Urban Broadband Fund and enable the

UK to have the fastest and best connected communications networks in Europe. **The winning cities in the second wave are: Brighton and Hove, Cambridge, Coventry, Derby, Oxford, Portsmouth, Salford, and York in England; Aberdeen and Perth in Scotland; Newport in Wales; and Derry/Londonderry in Northern Ireland.**

Housing and local development

1.89 UK housing supply has not kept pace with demand.[31] The Government announced in September that it would:

- provide an additional £280 million for the FirstBuy equity loan scheme to help a further 16,500 first-time buyers purchase a new build home;
- invest an additional £300 million in the Affordable Homes Programme. Together with a new power to provide guarantees for private and affordable rent housing, this will deliver 15,000 affordable homes and bring 5,000 empty homes back into use in this Parliament; and
- introduce a £200 million fund to support the building of private rented sector homes.

1.90 To support both housing and commercial development and support growth and jobs, **the Government is providing a further £683 million through capital grants and financial transactions. In England, the Government will invest £474 million in local infrastructure on a recoverable basis.** Around £60 million of this will be made available to support infrastructure in a limited number of Enterprise Zones. Around £225 million will be used to accelerate delivery of large housing sites, supporting around 50,000 homes. Around £190 million of the funding will be used to de-risk public sector land and enable the quicker disposal of surplus sites for new homes. Alongside this, the Government will provide £100 million to bring forward public sector sites for development.

Supporting science and innovation

1.91 The Government is investing to ensure the UK has the facilities to maintain and develop its world-class research base. In October 2012, the Government announced a further £200 million for the UK Research Partnership Infrastructure Fund that was launched at Budget 2012 with £100 million of public funding. Alongside private investment, the enlarged fund will secure over £1 billion of capital to further enhance the facilities for world-class university research and build strategic partnerships between universities and the private sector across the UK, supporting long-term economic growth. In November 2012, the Government provided a £120 million boost to the UK Space Agency as part of a plan to increase the UK's contribution to European Space Agency programmes to an average of £240 million a year over the next five years. This has been committed to high value scientific and industrial programmes which will benefit the UK. The UK space industry expects to generate income to the value of £1 billion a year on the back of this investment.

1.92 To build on these commitments and to support high quality research and the development of commercial applications of new research and technology, **the Government will invest £600 million in Research Council infrastructure, and facilities for applied research and development (R&D).** This investment will support the development of innovative technologies and strengthen the UK's competitive advantage in areas such as big data and energy efficient computing, synthetic biology and advanced materials. This extra £600 million of investment builds on previous decisions to increase capital investment in science and innovation made at fiscal events since Spending Review 2010 totalling £925 million.

1.93 In addition, the Prime Minister will launch the Life Sciences Strategy One Year On document later this month that will set out progress so far and the next steps to support the vibrant UK life sciences sector, which already includes bioclusters in areas such as Aberdeen and Dundee in Scotland, and London, Cambridge and Oxford in England.

[31] See *Laying the foundations: a housing strategy for England*, HM Government, November 2011.

Figure 1: Infastructure delivery progress around the UK and Autumn Statement 2012 capital announcements

NATIONAL PROGRAMMES

- Five year Rail Investment Plan from 2014-19, supporting £9.4 billion of investment
- An additional £120 million for building new flood defences
- The Government has secured state aid clearance for the rollout of rural broadband and BT is continuing with its roll out of superfast broadband
- 4G spectrum auction beginning December 2012, some services have already been rolled out on existing spectrum
- Providing certainty for low carbon power generators by setting funding for the Levy Control Framework to 2020
- The UK Guarantees Scheme will provide up to £40 billion of guarantees nationally

NORTHERN IRELAND

- Rail, roads, local transport, water, flood and waste – devolved to the Northern Ireland Executive
- **New funding announced:** Additional capital allocation of £132 million
- **New funding announced:** Super-connected cities – Derry/Londonderry

NORTH EAST

- **Completed:** Tees Multimodal Bio-Frieght Terminal
- **Starting soon:** Sunderland Strategic Transport Corridor – 2013
- **New funding announced:** A1Upgrade Works Lobley Hill (£64 million)

NORTH WEST

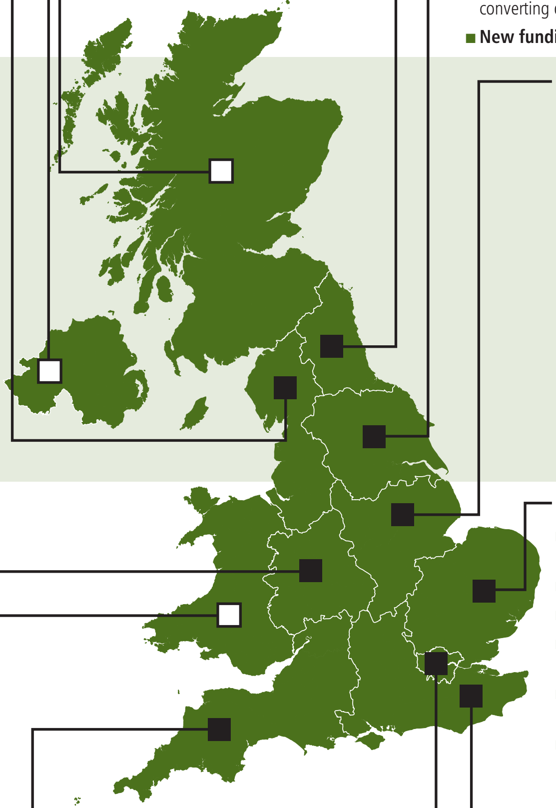
- **Starting soon:** Blackburn Pennine Reach Rapid Bus Transport Scheme – 2013
- **Under construction:** Carrington power station – Gas (CCGT) Investment: financial close achieved, completed by 2016
- **New funding announced:** Super-connected cities – Salford

SCOTLAND

- Rail, roads, local transport, water, flood and waste – devolved to the Scottish Government
- **Under construction:** Whitelee Onshore Wind Farm – 217MW extension complete
- **New funding announced:** Additional capital allocation of £394 million
- **New funding announced:** Super-connected cities – Aberdeen and Perth

YORKSHIRE AND THE HUMBER

- **Completed:** East Coast Mainline York Holgate Junction Scheme – work **completed**, and planning approvals obtained for North Doncaster Chord
- **Starting soon:** Beverley Integrated Transport Scheme – work starts in 2013
- **New funding announced:** A160/180 Immingham dualling scheme
- **Under construction:** M62 J25-30 – due to **complete** in 2013
- **Under construction:** A6182 White Rose Way Improvement Works – due to **complete** 2013
- **New funding announced:** A1 Leeming to Barton – converting dual carriageway into 3 lanes (£314 million)
- **New funding announced:** Super-connected cities – York



WEST MIDLANDS

- **Starting soon:** Darlaston Access Improvement Scheme to enhance road access to the area – 2013
- **Starting soon:** Worcester Integrated Transport Project – 2013
- **Under construction:** M6 J5-8 expected to **complete** in 2014
- **Under construction:** Midland Metro Birmingham Extension – expected to **complete** in 2015
- **New funding announced:** M6 J10A to 13 accelerated delivery pilot (part of £95 million scheme)
- **New funding announced:** M40 J12 works (£10 million)
- **New funding announced:** Super-connected cities – Coventry

EAST MIDLANDS

- **Starting soon:** Loughborough Road Improvements – work starts early 2013
- **Starting soon:** London Road bridge, Derby – work starts 2013
- **Under construction:** Nottingham Tram Extension – **opens** to public in 2014
- **Under construction:** A43 Corby Link – due to **complete** in 2014
- **New funding announced:** M1 J28 to 31 accelerated delivery pilot (part of £95 million scheme)
- **New funding announced:** Super-connected cities – Derby

WALES

- Roads, local transport, water, flood and waste – devolved to the Welsh Government
- Enhanced capital allowances have been made available at two additional sites within Welsh Enterprise Zones at Ebbw Vale and Haven Waterway
- **Starting soon:** Pen y Cymoedd onshore wind farm – development consent granted May 2012
- **New funding announced:** Additional capital allocation of £227 million
- **New funding announced:** Super-connected cities – Newport

EAST OF ENGLAND

- **Under construction:** East Coast Mainline Enhancements – Hitchin flyover
- **Starting soon:** A11 Fiveways to Thetford – 2013
- **Under construction:** M1 J10-13 Improvements
- **New funding announced:** A5-M1 new link road (£127 million)
- **New funding announced:** J30 M25 improvement works (£150 million)
- **New funding announced:** Super-connected cities – Cambridge

SOUTH WEST

- **Starting soon:** Camborne Pool Redruth Infrastructure project – 2013
- **Under construction:** M4/M5 managed motorway scheme – due to **complete** in spring 2014
- **Under construction:** Kingskerswell Bypass – due to **complete** in 2015
- **New funding announced:** A30 Temple to Carblake dualling works (£30 million)

LONDON

- **Completed:** Thameslink – Blackfriars station upgrade now **reopened**
- **Completed:** Underground Investment – Jubilee, Victoria and Metropolitan line upgrades
- **Under construction:** Crossrail – 1,300m tunnelling from Royal Oak
- **New funding announced:** Northern Line Extension to Battersea – providing a UK Guarantee to support the £1 billion investment to extend the Northern Line

SOUTH EAST

- **Starting soon:** Bexhill-Hastings Link Road – 2013
- **Under construction:** A23 Handcross to Warninglid – due to **complete** in 2014
- **Under construction:** Reading Station Upgrade Programme – new high level western concourse and road bridges in position
- **New funding announced:** M3 J2 to 4A accelerated delivery pilot (part of £95 million scheme)
- **New funding announced:** Super-connected cities – Brighton & Hove, Oxford and Portsmouth

1.94 The Government will provide £120 million for two additional rounds of the Advanced Manufacturing Supply Chain Initiative. This will support R&D, skills training and capital investment to help UK supply chains achieve world-class standards and encourage major new suppliers to locate in the UK.

1.95 The Government is also providing support for innovative business through the tax system by introducing an 'above the line' credit for R&D in 2013, as announced at Autumn Statement 2011. Further details on the design of the credit will be announced shortly.

Accelerating delivery and investment

Infrastructure UK

1.96 The Government will strengthen the mandate of Infrastructure UK (IUK) and increase its commercial expertise to boost the delivery of growth-enhancing infrastructure projects across government. As part of this new role, IUK together with an enhanced Major Projects Authority, will undertake a detailed assessment of Whitehall's ability to deliver infrastructure, building on their existing work. This assessment will be completed by Budget 2013. To ensure the assessment is as thorough as possible, it will be led by Paul Deighton as his first duty as Commercial Secretary to the Treasury, working closely with the Minister for the Cabinet Office and the Chief Secretary to the Treasury.

PF2

1.97 The Government has published full details of a new approach to public private partnerships, PF2, following its review of PFI. This continues to draw on private finance and expertise to deliver government investment in public infrastructure and services, while addressing past concerns about the PFI and responding to the recent changes in the economic context.

1.98 PF2 is a new, faster and more transparent approach to securing investment in public infrastructure. The Government will become a shareholder in future projects, to ensure a more collaborative approach to improving project performance and managing risk, and will share in the financial rewards alongside private sector shareholders.

Support for private investment

1.99 The *National Infrastructure Plan 2011* set out plans to attract major new private sector investment and in July 2012 the Government announced further support through UK Guarantees.[32] Up to £40 billion in guarantees will be provided to ensure that priority projects in the infrastructure pipeline can raise the finance they need despite challenging credit market conditions. The scheme has received 75 enquiries from project sponsors to date, of which projects with a capital value of around £10 billion have been prequalified as eligible for consideration of a guarantee. The scheme is open until 31 December 2014.

1.100 As one of the first projects to benefit from this scheme, the Government will provide a UK Guarantee to allow the Mayor of London to borrow £1 billion at a new preferential rate to support the Northern Line Extension to Battersea scheme, subject to due diligence and the agreement of a binding Funding and Development Agreement with developers, the Mayor of London and partner authorities during 2013. The Northern Line extension to Battersea is key to the redevelopment of Battersea Power Station and the regeneration of a historic part of London. Government intervention has the potential to enable an £8 billion investment at the Battersea Power Station site, supporting the wider redevelopment planned for Vauxhall, Nine Elms and Battersea, which could create up to 16,000 new homes and up to 25,000 new jobs.

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[32] *National Infrastructure Plan 2011*, HM Treasury and Infrastructure UK, November 2011.

1.101 The Government, the National Association of Pension Funds (NAPF) and the Pension Protection Fund (PPF) signed a memorandum of understanding to create the Pension Investment Platform (PIP) last year. NAPF and PPF announced in October that seven major UK pension funds have signed up to the PIP as Founding Investors and they expect to be in operation in the first half of next year. The Government has worked closely with NAPF and PPF to support the foundation of the PIP, but it is fully independent of Government.

Ensuring businesses can access finance and support

Promoting trade and investment

1.102 To ensure the UK thrives in the global race the Government is redoubling its efforts to promote exports and encourage foreign direct investment (FDI). The Government will:

- **establish a scheme to provide up to £1.5 billion of loans for the purchase of UK exports.** The scheme will be operated by UKEF and run for three years, focussing mainly on transactions below £50 million. The scheme will act as a backstop to finance UK export transactions when there is no other suitable finance available. This will give UK firms greater confidence to bid for export contracts knowing that finance will be available;
- **increase the annual budget of UKTI by £70 million to deliver services to more small and medium size exporters and help to refocus UKTI activities on the highest value opportunities and emerging markets.** It will enable UKTI to target inward investment at UK growth sectors, reinforce the UK as the location of choice for Europe-bound investors, improve UKTI's capacity to support ministerial visits and establish a new unit tasked with attracting the brightest and best overseas talent to the UK including through a dedicated visa route;
- **make UKTI's financial arrangements more flexible so that it can make greater use of private sector providers and build capacity in the overseas chambers of commerce and other British business groups;**
- alongside its ambition to increase exports to £1 trillion, **introduce an ambition to maintain the UK's position as the primary location for new inward FDI in Europe and become the number one destination in Europe for FDI from emerging markets;** and
- **increase the funding for the GREAT campaign to £30 million for 2013-14,** building on its success so far, to showcase Britain's capabilities and support significant and long-term increases in trade, tourism, education and inward investment.

Improving access to finance for small and medium sized businesses

1.103 The impact of the financial crisis on the cost and availability of credit is affecting productivity across the economy. The Government has already taken action to ease the flow of credit to small and medium-sized enterprises (SMEs) that do not have ready access to capital markets.

1.104 The Business Finance Partnership, which aims to stimulate new non-bank sources of finance, has invested £600 million and raised another £650 million from the private sector to create four new funds that will lend to mid-sized companies.

1.105 However further action is needed. As announced by the Chancellor and Secretary of State for Business, Innovation and Skills in September 2012, the Government is creating a Business Bank to transform the way that Government delivers support to SMEs. It will deploy £1 billion of additional capital to address structural gaps in the supply of finance to SMEs and stimulate the provision of long-term capital, including by leveraging in substantial private sector finance. In addition it will bring together, review and rationalise existing government schemes aimed at supporting access to finance for businesses under a single organisation, in order to increase access to and awareness of these interventions.

1.106 The Secretary of State for Business, Innovation and Skills will set out further details later in December 2012.

Lord Heseltine's Review

1.107 Following a commission from the Prime Minister, Lord Heseltine presented his report *No Stone Unturned* to the Chancellor and Secretary of State for Business, Innovation and Skills on 31 October 2012. Lord Heseltine makes a series of recommendations in all aspects of government policy that affect economic growth. The Government welcomes this report and will seek to implement as many of the recommendations as possible.

1.108 The review makes a powerful case for increased devolution of economic powers from central government, in particular for a transfer of funding and responsibilities to Local Enterprise Partnerships (LEPs), and for a stronger voice and role for the private sector in promoting growth through local and overseas chambers of commerce and national industry representatives.

1.109 This Autumn Statement sets out the first stage of the Government's response, particularly focused on local economic growth but also announcing implementation of other parts of the report. A full response will follow in the spring.

Unleashing local growth – empowering Local Enterprise Partnerships

1.110 The Government agrees with Lord Heseltine that local leaders and businesses are best placed to set the strategic direction for an area. The success of the first round of city deals, where LEPs and local authorities work together to reinvigorate local economies, demonstrates the benefits of this approach. For example, Manchester's 'earn back' agreement with the Government will unlock over £2 billion of investment in transport infrastructure. **LEPs, which bring together local leaders and businesses, will be asked by the Government to lead the development of new strategic plans for local growth consistent with national priorities.** In developing the plans, LEPs will be expected to consult with all relevant local partners, including the local chambers of commerce and other business bodies. These multi-year plans will build on any existing plans and include coordination with ongoing public programmes. It is expected that local authorities or other bodies, and not LEPs, will deliver programmes and projects, ensuring that there are proper accountability structures in place.

1.111 Through this strategic plan the LEPs will have an increasingly important role, and the Government is keen to ensure that all LEPs are able to fulfil this strategic function. The Government believes that LEPs should remain small, responsive, business-led organisations and avoid creating a local bureaucracy. Not all LEPs are providing the local leadership that is needed. **The Government will provide £10 million per year for capacity building within LEPs. Each LEP will be able to apply for up to £250,000 additional funding per year to support the development and delivery of their strategic plan.**

1.112 The Government agrees with Lord Heseltine that local business leaders need to have the tools and levers to drive investment and growth in their area and that means truly devolving funding and powers from central government. **The Government will devolve a greater proportion of growth-related spending on the basis of these strategic plans developed by LEPs by creating a single funding pot for local areas from April 2015.** Funding will reflect the quality of strategic proposals put forward by LEPs, as well as local need. When developing the plans, LEPs will be expected to seek to leverage funding, including from local authorities and the wider public and private sector.

1.113 The Government will seek to increase the proportion of spending that is awarded through the single funding pot based on Lord Heseltine's recommendations. This is likely to include some of the funding for local transport, housing, schemes to get people back into work, skills and any additional local growth funding. Further details will be set out in the Spending Review.

1.114 In line with Lord Heseltine's recommendation, **the Government will take the opportunity to streamline its management of the EU Common Strategic Framework funds in England,** aligning priorities on the basis of the plans led by LEPs.

1.115 This will build on the Government's existing commitment to empower local areas. LEPs already have strategic oversight of over £1 billion of local economic funding in this Parliament. In implementing Lord Heseltine's proposals the Government will apply lessons learned from the existing city deals, which have already seen devolution of significant responsibilities. In addition to Lord Heseltine's recommendations, **the Government will make available a new concessionary public works loan rate to an infrastructure project nominated by each LEP (excluding London), with the total borrowing capped at £1.5 billion.**

1.116 The Government will also provide a further £350 million towards the Regional Growth Fund, to provide support for jobs and growth across England until the end of this Parliament. In order to maximise the number of private sector jobs created, the Government will look to reflect on the successes of the previous rounds and will confirm how applicants can apply for funding in due course.

1.117 In recognition of the importance of partnership across a functional economic area **the Government will support local authorities that wish to create a combined authority or implement other forms of collaboration** (for example, shared management), including ensuring that the existing legislation is fit for purpose.

Developing a skilled, flexible workforce

1.118 In order to raise school standards and support the supply of high quality places, **the Government will invest an additional £980 million in schools in England by the end of this Parliament.** This includes enough funding for 100 new academies and free schools, as well as investment to expand good schools, in the areas experiencing the greatest pressure on places.

1.119 The Government will also provide an additional £270 million for capital investment to improve further education (FE) colleges in England. This investment will be targeted where it will have the biggest impact on growth, and on colleges with the greatest needs.

1.120 In order to make the education and skills system more effective and responsive to the needs of employers, the Government will:

- **give LEPs a new strategic role in skills policy in line with the recommendations of the Heseltine Review.** LEPs will be given a role setting skills strategies consistent with national objectives, and chartered status for FE colleges will be linked to having taken account of the skills priorities of local LEPs. In addition, the Government will encourage LEPs to have a seat on FE colleges' governing bodies, with colleges represented on LEP boards. LEPs will also be able to determine how the EU Common Strategic Framework funds, including the European Social Fund, are used locally and will be able to bring bidders together to access Employer Ownership Pilot funding;

- **increase funding for the Employer Ownership Pilot by £90 million,** from £250 million to £340 million, to enable more employers to shape training provision directly; and

- **provide improved information on returns to FE study to help drive up the quality and labour market relevance of FE courses.** Further details are in Chapter 2.

1.121 The Government has today published the reports of the independent Pay Review Bodies on local pay and intends to accept their recommendations, including that there should be no new centrally determined local pay rates or zones but that there should be greater use of existing flexibilities. The School Teachers' Review Body recommends much greater freedom for individual schools to set pay in line with performance and, subject to consultation, the Government will implement these reforms. There will be no centrally-imposed changes to the geographical structure of pay in the civil service.

Employment law

1.122 The Government is legislating to introduce a new employee shareholder status that will give staff a stake in their firms' future success and give firms greater choice about the contracts they can offer to individuals. Employee shareholders will have different employee rights and shares worth a minimum of £2,000 in the firm they work for. As announced, the Government will exempt gains on up to £50,000 of shares acquired by employee shareholders from capital gains tax from 6 April 2013. The Government is also considering options to reduce income tax and National Insurance contributions (NICs) liabilities that arise when employee shareholders receive their shares, including an option to deem that employee shareholders have paid £2,000 for shares they receive. This option would mean that the first £2,000 of shares received under the new status would be free from income tax and NICs.

1.123 To make the labour market more flexible, **the Government is consulting on reducing unnecessary burdens from the Transfer of Undertakings (Protections on Employment) (TUPE) regulations.**

Removing the burdens of unnecessary and inefficient regulation

1.124 Since April 2011 the Government has reduced the net burden of regulation on business by £850 million, by operating a One-In One-Out rule for new regulation. The Government has also committed to abolishing or substantially reducing the burdens on businesses of at least 3,000 regulations through the Red Tape Challenge.

1.125 To further reduce burdens on business, the Government will:

- **operate a One-In Two-Out rule from January 2013,** as announced on 19 November 2012. This will require the cost to business of new regulation to be offset by deregulation that delivers at least double the savings to business; and

- **launch a second phase of the Red Tape Challenge in spring 2013.**

1.126 To minimise the burden of economic regulation, the Government will:

- **review the appeals processes to make appeals quicker and easier;**

- **ask economic regulators to increase the transparency of their fees and ensure the services provided are efficient and cost effective;** and

- **increase the incentives of economic regulators to make better use of their concurrent competition powers** to ensure that pro-competition solutions are sought to market failures wherever possible.

1.127 The Government will simplify the Carbon Reduction Commitment (CRC) energy efficiency scheme from 2013, providing very significant administrative savings for businesses in the scheme. **The CRC's Performance League Table will be abolished, to simplify the scheme further. A full review of the effectiveness of the CRC will be held in 2016 and the tax will be a high priority for removal when the public finances allow.**

Employee ownership

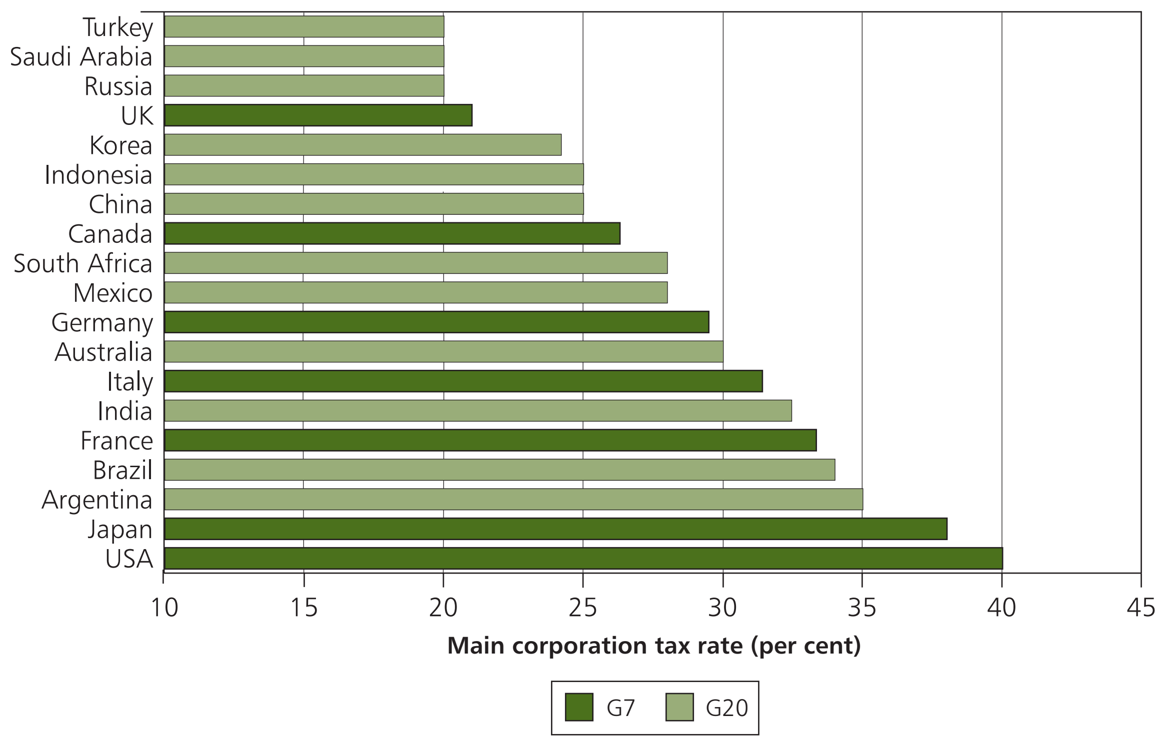
1.128 Budget 2012 announced an internal Treasury review of the link between employee ownership and growth. The Government supports employee ownership as a business model, which offers benefits to employers and the wider economy, and recognises that a range of employee ownership models may be legitimately applied including employee share schemes and Employee Benefit Trusts that are not aimed at avoiding tax. The Government will continue to build a better understanding of the complexities faced by the sector, including within the tax environment. The Nuttall Review set out recommendations to support an expansion in the number of employee-owned businesses. The Treasury and HM Revenue and Customs (HMRC) will support the Department for Business, Innovation and Skills and Cabinet Office in implementing the Government's response to the Nuttall Review of employee ownership. The Government is considering further incentives to support this objective and will report at Budget 2013.

Providing an internationally competitive tax system

1.129 To encourage businesses to locate and invest in the UK the Government is creating a simpler, more efficient and stable tax system, with an ambition to make it the most competitive in the G20. The Government has already reduced the main corporation tax rate from 28 per cent in 2010 to 24 per cent in 2012 and announced further reductions, to 22 per cent in 2014.

1.130 The Government will reduce the main rate of corporation tax by an additional 1 per cent in April 2014. This means the rate will be reduced from 24 per cent to 23 per cent in April 2013 and then to 21 per cent in April 2014, when the UK will have the lowest corporation tax rate in the G7 and the fourth lowest in the G20.

Chart 1.11: Main corporation tax rates in the G7 and G20 (2014 based on announced plans)



Source: International Bureau of Fiscal Documentation database, Deloitte Global Tax Rates 2012 and KPMG Global Tax Rates 2012.

1.131 As set out at Budget 2012, the Government intends that the Bank Levy should raise at least £2.5 billion each year. To take account of the benefit to the banking sector of the additional reduction in corporation tax and offset the forecast shortfall in receipts for future years, **the rate of the Bank Levy will increase to 0.130 per cent from 1 January 2013.** The Levy ensures that banks make a fair contribution and reflects the risks they pose to the financial system and the wider economy.

1.132 The Government wants the UK to continue to build on its competitive edge in the insurance sector as a key exporter and important source of long-term investment. The changes the Government has made to the tax framework have already stimulated interest among overseas insurers in doing more business in the UK and the recent relocation to London of one of the world's largest brokers is now helping to strengthen the cluster around the London market. The Government particularly welcomes interest from insurers that meet the conditions for authorisation and that want to do more business in the UK and the Government has asked the FSA to ensure that new applications from overseas insurers are processed smoothly.

1.133 Budget 2012 announced that the Government will introduce corporation tax reliefs from April 2013 for the video games, animation and high-end television industries, subject to state aids approval. Following consultation on their design, **the Government will ensure that the reliefs are among the most generous in the world by offering a payable tax credit for all three reliefs worth 25 per cent of qualifying expenditure.**

Promoting investment through the tax and pensions systems

1.134 The Government will increase the Annual Investment Allowance from £25,000 to £250,000 for qualifying investment in plant and machinery for two years from 1 January 2013. This is designed to encourage and incentivise business investment in plant and machinery, particularly among SMEs.

1.135 To promote further private investment, **the Government will exempt all newly built commercial property completed between 1 October 2013 and 30 September 2016 from empty property rates for the first 18 months,** up to the state aids limit subject to consultation.

1.136 The Government recognises the challenges currently faced by small businesses. **The Government will extend the temporary doubling of the Small Business Rate Relief scheme for a further 12 months from 1 April 2013.** Over half a million small businesses will benefit from this extension, with 350,000 not paying any business rates until April 2014.

1.137 The Government is determined to ensure that defined benefit pensions regulation does not act as a brake on investment and growth. **The Department for Work and Pensions (DWP) will consult on providing the Pensions Regulator with a new statutory objective to consider the long-term affordability of deficit recovery plans to sponsoring employers.** The Government also recognises that volatility in measures of pension scheme deficits can make it hard for companies to manage their investment plans and attract external funding. **DWP will also consult on whether to allow companies undergoing valuation in 2013 or later to smooth asset and liability values.**

Creating a simpler, more efficient and fairer tax system

1.138 To reduce burdens on business and individuals and make the tax system clearer and more efficient, the Government will:

- **significantly expand the online services HM Revenue and Customs (HMRC) offers to taxpayers over the next three years.** SMEs will be able to access all the tax services they need from a personalised homepage with secure digital messaging. Individual taxpayers will also benefit from a much improved online service. Further details are set out in Chapter 2;
- **introduce a target to reduce the annual cost to business of tax administration by £250 million by the end of the spending review period;** and
- **apply the new voluntary cash basis for calculating tax for small self-employed businesses, announced at Budget 2012, to self-employed businesses with receipts of up to £77,000.** The cash basis will be implemented from April 2013.

1.139 Alongside reforms to increase the competitiveness of the tax system, the Government is taking significant steps to ensure that businesses, including multinational companies, pay their fair share of tax. The Government will:

- **provide additional resources to the OECD, alongside France and Germany, to speed up the international efforts on dealing with profit shifting and erosion of the corporate tax base at the global level;** and
- **invest further funding in HMRC to enhance its risk assessment capability for large multinational companies and increase HMRC's transfer pricing specialist resources** to accelerate the identification, challenge and resolution of transfer pricing issues.