A Policy measures announced since October

Overview

A.1 Our *Economic and fiscal outlook (EFO)* forecasts incorporate the expected impact of the policy decisions announced since our previous forecast. In full 'fiscal events', like a Budget, the Government provides us with draft estimates of the Exchequer cost or gain from each policy measure it is considering. We discuss these with the relevant experts and then suggest amendments as necessary. This is an iterative process where individual measures can go through several stages of scrutiny. For this Spring Statement, almost all the policy measures we have factored in were announced between the Budget and now.

A.2 We choose whether to certify costings as 'reasonable and central', and whether to include them – or alternative costings of our own – in our forecast. We do not scrutinise individual changes to spending within departmental expenditure limits (DELs), but rather make a judgement on the extent to which the Government's overall resource and capital spending limits will be over- or underspent. We are also responsible for assessing any indirect effects of policy measures on our economy forecast, such as excise duty changes affecting inflation.

A.3 The Government has announced 20 new policies since the Budget (Table A.2). The process for scrutinising these costings worked reasonably efficiently, and most information was provided in a timely manner. Our main concern was around the estimated effects on disability benefits spending of the changes associated with completing the transition of working-age claimants from disability living allowance to personal independence payment.

A.4 At Budget 2018 there was a package of costings relating to universal credit that we were unable to certify on the basis of the information provided at the time. Ahead of this forecast we asked DWP analysts to provide us with updated and additional material on these measures. After scrutinising this additional material, some corrections proved necessary – as we suspected – although thankfully these were relatively small (see paragraph A.22).

Government policy decisions

A.5 Table A.1 presents the aggregate direct and indirect effects of all new policy announcements, while Table A.2 presents the measure-by-measure breakdown. The overall direct effect is a small giveaway in all years, driven by higher spending.

A.6 Using 'multipliers' to estimate the effect of fiscal policy changes on GDP suggests a negligible effect on real GDP growth.[1] The higher level of government consumption raises cumulative nominal GDP growth by 0.1 percentage points by the end of the forecast. This delivers a partially offsetting indirect effect on borrowing, which reflects the modest boost the net fiscal giveaway gives to the economy and tax receipts and the increase in public service pension contributions associated with higher departmental current spending.

A.7 The overall effect of the policy decisions is to increase net borrowing by amounts rising from £0.7 billion in 2019-20 to £2.1 billion in 2023-24.

Table A.1: Summary of the effect of Government decisions on the budget balance

	£ billion					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total effect of Government decisions	**-0.3**	**-0.7**	**-1.2**	**-1.2**	**-1.8**	**-2.1**
Direct effect of Government decisions	**-0.3**	**-1.2**	**-1.5**	**-1.6**	**-2.1**	**-2.4**
of which:						
Receipts	0.0	0.3	0.7	0.5	0.4	0.4
Welfare spending	0.0	0.1	-0.2	-0.3	-0.1	-0.3
Other AME	0.0	-1.3	-0.7	-1.0	-0.7	-0.8
RDEL	0.6	-1.5	-1.4	-1.4	-1.6	-2.1
CDEL	-1.0	1.3	0.0	0.6	-0.1	0.4
Indirect effect of Government decisions	**0.0**	**0.4**	**0.3**	**0.4**	**0.3**	**0.3**

Note: The presentation of these numbers is consistent with the usual scorecard treatment, with a positive sign implying an Exchequer gain (an improvement in PSNB, PSNCR and PSND) and vice versa for a negative sign. This does not include the effects of decisions by the Scottish Government, which are presented in Table A.3.

Receipts

A.8 There have been several tax measures announced since October:

- **Fixed odds betting terminals** and **remote gaming duty:** in the 2018 Budget the Government announced it would reduce the maximum stake on fixed odds betting terminals from £100 to £2 from October 2019. It also announced an increase in remote gaming duty that was designed to offset the loss in revenue. Responding to Parliamentary pressure, the start date of these measures was brought forward to April.

- **Corporation tax: relief for goodwill:** in July 2015, the Government restricted corporation tax relief for purchased goodwill, stating that this "*brings the UK regime in line with other major economies, reduces distortion and levels the playing field for merger and acquisition transactions*". Following a consultation with businesses in February 2019 the Government learned that "*respondents were generally in favour of changes to simplify the [intangible fixed assets] regime and increase the scope and generosity of relief*"[2]. This measure partially reintroduces relief for goodwill from April 2019, capped by reference to the value of the business's intellectual property.

[1] For further detail on our use of fiscal multipliers, see Box 3.2 of our July 2015 *EFO*.
[2] *Review of the corporate Intangible Fixed Assets regime Summary of Responses*, 7 November 2018.

- **Disguised remuneration loan charge: extension of time limit:** this measure introduces a seven-year payment arrangement for individual users of disguised remuneration schemes with current incomes below £30,000. Disguised remuneration schemes involve an individual being paid via a loan, often through an offshore trust or an employee benefit trust, rather than a salary. This arrangement allowed them to avoid income tax and National Insurance contributions, while the terms of the loan meant it was not paid back in practice. In Budget 2016 the Government sought to address this by imposing a charge, due to begin in April 2019, on outstanding loan balances, some of which dated back to 1999. The initial measure targeted employees, but the loan charge was extended to the self-employed in a subsequent measure in Autumn Statement 2016. In 2018 HMRC introduced a five-year payment arrangement for those affected individuals with current incomes below £50,000. HMRC estimates that the loan charge will affect up to 50,000 individuals, largely in the 'business services' sector. This change affects a relatively small number of prospective loan charge payers by relatively small amounts, so is expected to cost under £5 million a year on average.

- **Immigration health surcharge:** this charge was brought in by the Coalition in 2015 and is payable upfront by individuals coming to live in the UK for longer than six months. It was initially set as an annual payment of £200 per person and this measure doubles that to £400.[3] The increase came into effect from January and is due to raise around £0.2 billion a year. We have been advised by the Treasury that the ONS is likely to reclassify the surcharge as a tax rather than a service payment, so the charge in full raises our tax receipts forecast by £0.4 billion a year from 2019-20 onwards. The Government has decided to offset the effect of this on borrowing by removing the same amount in 'negative spending' from RDEL, where the revenues were previously recorded.[4] The Home Office has confirmed that, after deducting costs, the full amount raised from the surcharge has been transferred to the NHS.[5]

- **Probate fees:** the Government has confirmed its plans to change the fees payable for an application for a grant of probate. The new rates range between £250 and £6,000 depending on the value of the estate, and come into effect in April. The Treasury expects the ONS to classify the new structure – with its 2,700 per cent increase in cost for estates valued over £2 million – as a tax in the National Accounts. The new probate fee structure is expected to generate £155 million a year in additional tax receipts. There will be a small knock-on effect to inheritance tax receipts due to the incentive for individuals with estates worth close to thresholds in the new probate fee structure to reduce the value of their estates (through genuine or contrived means) to pay a lower fee. This effect is expected to be relatively small (around £5 million a year), since the inheritance tax liability itself already provides a significant incentive to reduce the value

[3] This is £300 per year for a student or Tier 5 (Youth Mobility Scheme) visa, up from the £150 initially set.
[4] The £0.2 billion offset in DEL associated with this new measure is shown in the 'Immigration health surcharge' line in Table A.2, while the remaining £0.2 billion offset – from the amount that would have been raised in the absence of this measure – is contained within the 'Other RDEL changes' line.
[5] The transferred funds are divided between NHS England, NHS Wales, NHS Scotland and HSC in Northern Ireland, according to the Barnett formula.

of estates. The Government has decided to offset the expected yield from probate fees by removing the same amount in 'negative spending' from RDEL.[6]

- **EU emissions trading system (ETS): rescheduling of auctions:** on 19 December 2018, the European Commission announced that, from 1 January 2019, it was suspending the issuance and surrender of UK allowances from the ETS, pending ratification of the Withdrawal Agreement. In response, the Government decided to hold no auctions during the first three months of 2019, and instead to auction 12 months' worth of permits across the remaining months of 2019. The costing mostly reflects this timing change – shifting some cash payments from 2018-19 to 2019-20, resulting in a shift in revenue from 2019-20 to 2020-21 under the National Accounts accruals treatment.

Annually managed expenditure

A.9 The Government announced several policy changes relating to universal credit (UC) and personal independence payment (PIP). These include:

- **Restricting benefits for mixed age couples: delay:** the Government has announced a delay to this policy – originally announced in 2012 – that restricts access to pension credit and pensioner housing benefit for couples where only one partner is above the State Pension age. The original start date was 1 February 2019. It is now 15 May 2019. The delay will cost around £100 million across the forecast period.

- **Universal credit: removing the two-child limit:** this measure reverses the Summer Budget 2015 announcement limiting the number of child elements that can be paid to a family newly claiming UC but that has not claimed benefits in the preceding six months and where all children were born before 6 April 2017 (along with some exceptions after that date). This has a modest medium-term cost, but no long-term cost since ultimately all children in the UC caseload will have been born after April 2017 and will therefore be subject to the existing two-child limit policy.

- **Universal credit: savings from reprofiling:** the Government has reshaped the UC managed migration profile in a way that lowers the cost of UC by £0.2 billion over the next five years – a broadly equivalent amount to the cost of the child-limiting policy reversal. We discuss these two measures more fully in Chapter 4.

- **Personal independence payment: delay full PIP rollout and reduce scheduled award reviews:** this measure has two elements. The 'full PIP rollout' has been delayed and we now assume that it will not be completed until February 2021 (rather than early 2020). DWP has also announced that award reviews will cease for all those above State pension age, unless requested by claimants. To deliver the rollout end date, DWP will need to reduce other scheduled award reviews for working-age claimants due to limited capacity to deliver all disability benefits assessments. We discuss this measure in more detail in Chapter 4 too. Its impact is subject to high uncertainty.

[6] Probate fees were due to raise around £50 million a year in the absence of this measure. The Government has decided to offset this too, and this amount is contained within the 'Other RDEL changes' line in Table A.2

A.10 Several measures were announced in the 2019-20 local government finance settlement:

- **Eliminating negative revenue support grant in 2019-20:** revenue support grant (RSG) is a central government grant that local authorities can use to finance revenue expenditure on any service. Negative RSG redistributes retained business rates revenue from authorities that do not receive any RSG to other authorities. The Government has announced it intends to eliminate negative RSG for affected authorities in 2019-20, which in effect increases their retained business rates. We assume 75 per cent of this gain to authorities will be added to their stock of reserves and the rest used to finance local spending.

- **Business rates retention: 75 per cent pilots:** the Government has been piloting full business rates retention since 2017-18. This measure launches 16 further pilots to run in 2019-20 with a 75 per cent retention rate. As local authorities retain growth in business rates revenues beyond a specified baseline, this boosts local authorities' self-financed spending beyond the amount forgone in central government grants.

- **Council tax: police authority referendum principle threshold increase:** this measure raises the amount by which English police and crime commissioner authorities can increase council tax without necessitating the calling of a local referendum (from £12 to £24 a year). We expect it to generate an average of just under £200 million a year in additional council tax receipts that local authorities will spend.

A.11 **Other Scottish Government AME:** In October 2018 Scottish Government expenditure was moved from central government DEL to AME, ostensibly because an increasing proportion of expenditure is self-financed from taxation and thus falls outside Treasury control. Changes in Scottish Government AME reported in Table A.2 largely relate to changes in the Treasury's block grant assumptions for the period beyond the current Spending Review. They therefore refer to years in which actual block grant allocations have yet to be made.

Spending within departmental expenditure limits

A.12 Table A.1 shows that the aggregate effect of new policy announcements is to increase total departmental spending in each year of the forecast, rising to £1.7 billion by 2023-24. Table A.2 presents the measure-by-measure breakdown, including:

- **Non-NHS RDEL spending:** the Government has raised this in cash terms sufficiently to hold spending flat in real terms relative to our latest GDP deflator forecast and from a 2019-20 base that reflects our latest underspend assumptions. This adds £0.5 billion a year on average from 2019-20 onwards, rising to £0.8 billion in 2023-24.

- **Additional NHS spending:** the Government has maintained the real terms increase agreed between the Government and the NHS in June 2018 given our October GDP deflator forecast. This also adds amounts that rise to £0.8 billion in 2023-24.

- **Other RDEL and CDEL changes:** these are discussed in Chapter 4.

Financial transactions

A.13 Two policy changes affect our financial transactions forecast:

- **UK Asset Resolution:** since our October forecast, the Government has pushed back completion of the sale of loan assets held within UK Asset Resolution from late 2018-19 into early 2019-20. This delay changes the profile of expected proceeds, but does not materially affect their overall size.

- **Accelerated degrees:** the Government has announced an increase in the annual fee caps and maximum fee loans applying to accelerated degrees. Despite the 20 per cent annual increase relative to standard full-time courses, with the maximum rising from £9,250 to £11,100 a year, a student would still pay less in total on tuition fees for a two-year course than a three-year equivalent. The costing assumes a significant rise in the number of students on these courses, with the majority switching from standard full-time courses. The net cost of the measure reflects the minority of new students who would not otherwise have studied at degree level, plus the higher average fees for students already planning to enrol on an accelerated course, slightly offset by lower total outlays to students switching from three- to two-year courses. This increases the public sector net cash requirement (and PSND) by around £10 million a year, but has a negligible impact on PSNB due to changes in interest and write-offs.

Table A.2: Costings for Government policy decisions

	Head	£ million 2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Uncertainty
Fixed odds betting terminals: bring forward start date	Total	0	-115	0	0	0	0	Medium-low
	Receipts	*0*	*-115*	*0*	*0*	*0*	*0*	
Remote gaming duty: bring forward start date	Total	0	+115	-5	0	0	0	Medium-low
	Receipts	*0*	*+115*	*-5*	*0*	*0*	*0*	
Corporation tax: relief for goodwill	Total	-5	-20	-50	-75	-100	-125	High
	Receipts	*-5*	*-20*	*-50*	*-75*	*-100*	*-125*	
Disguised remuneration loan charge: extension of time limit	Total	-5	-5	-5	neg	neg	neg	Medium-low
	Receipts	*-5*	*-5*	*neg*	*neg*	*neg*	*neg*	
	AME	*neg*	*neg*	*neg*	*neg*	*neg*	*neg*	
Probate fees	Total	0	neg	-5	-5	-5	-5	Medium
	Receipts	*0*	*+130*	*+145*	*+150*	*+155*	*+165*	
	RDEL	*0*	*-135*	*-150*	*-160*	*-165*	*-170*	
Immigration health surcharge	Total	0	0	0	0	0	0	Medium
	Receipts	*+30*	*+220*	*+205*	*+195*	*+190*	*+185*	
	RDEL	*-30*	*-220*	*-205*	*-195*	*-190*	*-185*	
EU emissions trading system: rescheduling of auctions	Total	0	-250	+270	0	0	0	Medium-low
	Receipts	*0*	*-250*	*+270*	*0*	*0*	*0*	
Restricting benefits for mixed age couples: delay	Total	-10	-20	-20	-20	-20	-20	Medium-low
	AME	*-10*	*-20*	*-20*	*-20*	*-20*	*-20*	
Universal credit: removing the two-child limit	Total	neg	-45	-60	-65	-55	-55	Medium
	AME	*neg*	*-45*	*-60*	*-65*	*-55*	*-55*	
Universal credit: savings from reprofiling	Total	0	neg	-10	+15	+190	-20	Low
	AME	*0*	*neg*	*-10*	*+15*	*+190*	*-20*	
PIP: delay full PIP rollout and reduce scheduled award reviews	Total	+10	+115	-70	-215	-255	-220	High
	AME	*+10*	*+115*	*-70*	*-215*	*-255*	*-220*	
Eliminating negative revenue support grant in 2019-20	Total	0	-65	0	0	0	0	Low
	AME	*0*	*-55*	*0*	*0*	*0*	*0*	
	RDEL	*0*	*-15*	*0*	*0*	*0*	*0*	
Business rates retention: 75 per cent pilots	Total	0	-155	+140	0	0	0	Medium
	AME	*0*	*-910*	*+140*	*0*	*0*	*0*	
	RDEL	*0*	*+755*	*0*	*0*	*0*	*0*	
Council tax: police authority referendum principle increase	Total	0	0	0	0	0	0	Medium-low
	Receipts	*0*	*+175*	*+185*	*+190*	*+195*	*+200*	
	AME	*0*	*-175*	*-185*	*-190*	*-195*	*-200*	
Other Scottish Government AME	Total	-25	-125	-660	-775	-465	-515	Medium
	AME	*-25*	*-125*	*-660*	*-775*	*-465*	*-515*	
Non-NHS RDEL spending	Total	0	0	-290	-230	-660	-845	N/A
	RDEL	*0*	*0*	*-290*	*-230*	*-660*	*-845*	
Additional NHS spending	Total	0	-45	-115	-165	-195	-840	N/A
	RDEL	*0*	*-45*	*-105*	*-150*	*-180*	*-770*	
	AME	*0*	*-5*	*-10*	*-15*	*-15*	*-70*	
Additional police funding	Total	0	-100	0	0	0	0	N/A
	RDEL	*0*	*-95*	*0*	*0*	*0*	*0*	
	AME	*0*	*-10*	*0*	*0*	*0*	*0*	
Other RDEL changes	Total	+680	-1715	-640	-645	-400	-175	N/A
	RDEL	*+680*	*-1715*	*-640*	*-645*	*-400*	*-175*	
Capital DEL reprofiling	Total	-965	+1285	+15	+610	-90	+415	N/A
	CDEL	*-965*	*+1285*	*+15*	*+610*	*-90*	*+415*	
Direct effect of Government decisions		**-325**	**-1155**	**-1505**	**-1575**	**-2055**	**-2405**	

Note: The presentation of these numbers is consistent with the usual scorecard treatment, with negative signs implying an Exchequer loss and a positive an Exchequer gain.

Scottish Government decisions since October

A.14 Our UK public finances forecasts are also affected by decisions taken by the devolved administrations. These can affect UK-wide taxes, such as income tax and NICs, or those that have been fully devolved such as the Scottish land and buildings transactions tax (LBTT). Since October the Scottish Government has announced several new measures, the expected costs and yields for which are presented in Table A.3:[7]

- **Income tax: freeze the higher rate threshold**: the higher rate threshold for Scottish income tax payers will remain at £43,430 in 2019-20, further widening the gap relative to taxpayers in the rest of the UK, where it rises to £50,000 in April 2019.

- **LBTT: increase the additional dwelling supplement**: this supplement – chargeable, for example, on purchases of second homes and buy-to-let properties in Scotland – was increased from 3 to 4 per cent, with effect from 25 January 2019. The yield from this is less uncertain than the yield from introducing the supplement was in April 2016, but nevertheless the behavioural response to the rise is uncertain.

- **LBTT: commercial property rates and thresholds**: the rates and thresholds for LBTT due on purchases of commercial property will change. A lower rate of 1 per cent (previously 3 per cent) will apply to transactions between £150,000 and £250,000 (previously the up to £350,000). The upper rate – applying to transactions above £250,000 – will rise from 4.5 to 5 per cent.

- **Scottish non-domestic rates**: the Scottish Government announced several giveaways for non-domestic ratepayers. The largest sets a rate for 2019-20 of 49 pence, lower than would have prevailed if it had risen in line with RPI inflation as previously assumed.

- **Scottish landfill tax: banning biodegradable municipal waste**: in 2012 the Scottish Parliament passed legislation banning the landfilling of biodegradable municipal waste in Scotland from January 2021. We now have sufficient information to include the year-by-year effects of this policy in our forecast. It is expected to reduce Scottish landfill tax receipts significantly, but mostly to the benefit of UK landfill tax receipts by diverting waste to England. The scale of this behavioural response is highly uncertain.

- **Council tax: lifting the cap in Scotland:** Scottish local authorities will be allowed to raise council tax by up to 4.79 per cent in 2019-20 – more than previously assumed. We assume that Scottish local authorities will spend this additional revenue.

[7] For more detailed information on the costings for the devolved taxes see our *Devolved taxes and spending forecasts* publication produced alongside this *EFO* and available on our website. Costings that relate to the devolved taxes should be considered alongside the fiscal consequences set out in the Treasury's fiscal framework agreements with the Scottish and Welsh Governments respectively.

Table A.3: Costings for Scottish Government policy decisions

		£ million					
	Head	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Income tax: freeze the higher rate threshold	Receipts	0	+70	+80	+80	+85	+90
Land and buildings transaction tax: increase additional dwellings supplement	Receipts	neg	+25	+25	+30	+30	+30
Land and buildings transaction tax: commercial property rates and thresholds	Receipts	neg	+15	+15	+15	+15	+15
Scottish landfill tax: banning biodegradable municipal waste	Receipts	0	0	-5	-15	-15	-15
Scottish non-domestic rates	Receipts	0	-40	-45	-45	-45	-45
	Current AME	0	+40	+45	+45	+45	+45
Council tax: lifting the cap in Scotland	Receipts	0	+55	+55	+60	+60	+60
	Current AME	0	-55	-55	-60	-60	-60
Direct effect of Scottish Government decisions		+5	+105	+115	+105	+110	+115

Note: The presentation of these numbers is consistent with the usual scorecard treatment, with negative signs implying an Exchequer loss and a positive an Exchequer gain.

Uncertainty

A.15 In order to be transparent about the potential risks to our forecasts, we assign each certified costing a subjective uncertainty rating, as shown in Table A.2. These can range from 'low' to 'very high'. To do so, we consider the uncertainty arising from each of three sources: the data underpinning the costing; the complexity of the modelling required; and the possible behavioural response to the policy change. We take into account the relative importance of each source of uncertainty for each costing. The full breakdown that underpins each rating is available on our website. It is important to emphasise that where we see a certified costing as particularly uncertain, that means that we see risks lying to both sides of what we nonetheless judge to be a reasonable and central estimate.

An example of assigning uncertainty rating criteria

A.16 Table A.4 shows the detailed uncertainty criteria and applies them to a sample policy measure announced since October: **'corporation tax: relief for goodwill'**. This reinstates corporation tax relief on goodwill, subject to certain conditions. Companies that acquire goodwill on or after 1 April 2019 will receive relief in corporation tax for goodwill up to six times the value of any qualifying intellectual property assets in the business being acquired. The policy is expected to cost £20 million in 2019-20 rising to £125 million in 2023-24. The cost will continue to rise beyond our five-year forecast horizon; HMRC estimates that it may take up to 15 years to reach its steady state. Against each uncertainty criterion:

- **Modelling:** Several uncertain behavioural effects are modelled, including an increase in the value of qualifying intellectual property in transactions and in the value of goodwill associated with qualifying intellectual property. These complex effects cannot be modelled easily, so we considered this to be a 'high' source of uncertainty.

- **Data:** This is the most important source of uncertainty in this costing. The data used are from 2016-17 company accounts, with subsequent examination of the top 100 cases of goodwill determining the relationship between goodwill and intellectual property that would qualify for relief were the new relief to be in place. While broadly reliable, the data are subject to two key potential issues. First, the share of goodwill estimated to be intellectual property qualifying for relief is uneven across time. Second, the top 100 cases cover less than half the net book value of goodwill in 2016-17. As such, there is uncertainty around how well the results from the data analysed will represent the whole population of goodwill purchases potentially affected. We considered this to be a 'high' source of uncertainty too.

- **Behaviour:** Several behavioural effects are considered in this costing, including firms waiting until 2019-20 to complete acquisitions and companies being induced to bring further goodwill into the scope of the relief. The extent of these behavioural effects is largely based on judgement from relevant compliance officials in HMRC. We considered this to be a 'medium' source of uncertainty.

Taking all these into account, we gave the costing an overall rating of 'High'.

Table A.4: Assigning uncertainty rating criteria to 'Corporation tax: relief for goodwill'

Rating	Modelling	Data	Behaviour
Very High	Significant modelling challenges Multiple stages and/or high sensitivity on a range of unverifiable assumptions	Very little data Poor quality	No information on potential behaviour
High	Significant modelling challenges Multiple stages and/or high sensitivity on a range of unverifiable assumptions	Little data Much of it poor quality	Behaviour is volatile or very dependent on factors outside the tax/benefit system
Medium-High	Some modelling challenges Difficulty in generating an up-to-date baseline and sensitivity to particular underlying assumptions	Basic data May be from external sources Assumptions cannot be readily checked	Significant policy for which behaviour is hard to predict
Medium	Some modelling challenges Difficulty in generating an up-to-date baseline	Incomplete data High quality external sources Verifiable assumptions	Considerable behavioural changes or dependent on factors outside the system
Medium-Low	Straightforward modelling Few sensitive assumptions required	High quality data	Behaviour fairly predictable
Low	Straightforward modelling of new parameters for existing policy with few or no sensitive assumptions	High quality data	Well established, stable and predictable behaviour
Importance	**Medium**	**High**	**Low**
Overall		**High**	

Other highly uncertain measures

A.17 There is only one other measure factored into this forecast to which we have assigned a 'high' uncertainty rating: **'personal independence payment (PIP): delay full PIP rollout and reduce scheduled award reviews'**. This costing reflects announcements from DWP Ministers in December (delaying the managed migration of DLA cases to PIP – the 'full PIP rollout') and March (to stop scheduled award reviews for claimants over the State Pension age, unless they request one). It assumes the removal of some other award reviews for younger claimants in order to deliver the full PIP rollout to the timetable set by Ministers.

A.18 Modelling is the most important source of uncertainty. Delaying 'full PIP rollout' affects spending on DLA and PIP, and both forecast models were used in the costing. But ensuring consistency of assumptions across the cases affected was challenging. The award review modelling relies on proxies for the caseload and the likelihood of having an award review, as well as the effect of a maturing caseload on the baseline number of scheduled award reviews that would have taken place for claimants over the State Pension age. We consider modelling to be a 'high' source of uncertainty. The behavioural response to removing scheduled award reviews is also uncertain. We consider behaviour to be a 'medium-high' source of uncertainty. Overall, we assign this costing a 'high' uncertainty rating.

Update on previous measures

A.19 We cannot review and re-cost all previous measures each time we produce a new forecast (the volume of them being simply too great), but we do look at any for which the original (or revised) costings are under- or over-performing, and at costings that we have previously identified as subject to particular uncertainty, including in respect of operational delivery.

Policy reversals

A.20 Two of the Government's new measures – '**corporation tax: relief for goodwill'** and '**universal credit: removing the two-child limit'** – reverse ones that were announced in 2015. Indeed, the latter continues the steady process of dropping parts of the Summer Budget 2015 package of welfare cuts that were announced by the then Chancellor with the aim of cutting £12 billion a year from working-age welfare spending by 2019-20. That started with the decision later in 2015 not to go ahead with large cuts to tax credit entitlement, the equivalent of which in universal credit have been largely reversed via subsequent increases in the generosity of the income taper (in the 2016 Autumn Statement) and the work allowances (in the 2018 Budget). Two further new policies – those relating to **fixed odds betting terminals** and **remote gaming duty** – were announced in the 2018 Budget, but just over a fortnight later the Government bowed to pressure to bring forward their start dates from October to April 2019. Table A.2 sets out the costing for these four measures.

Policy delays

A.21 In order to certify costings as central, we need to estimate when – as well as by how much – measures will affect the public finances. As we have set out in previous *EFOs*, many announced policy measures do not follow the timetable factored into the original costings – even where we have required greater contingency margins to be assumed before certifying the measure. This continues to pose a risk to our forecast. The policy delays we have been notified about for this forecast include:

- **Personal independence payment: full PIP rollout:** as described above.
- **Restricting benefits for mixed age couples: delay:** also described above.
- **Dynamic coding out of debt:** this measure, announced in Autumn Budget 2017, will enable HMRC to bring forward collection of self-assessment income tax debts by coding out closer to real-time, rather than waiting until the subsequent fiscal year. IT problems have seen the start date pushed back from April 2019 to October 2019.
- **Tax credits debt: enhanced collection:** this measure, also announced in Autumn Budget 2017, and due to begin in April 2018, was designed to facilitate the smooth transfer of certain tax credits debt from HMRC to DWP. In March 2018, HMRC told us that IT problems meant a delay to October 2018, before that timetable slipped again to March 2019. Now, after further delays, this time in testing the IT solution, it is planned to go live in May 2019. The original costing expected the measure to yield £60 million in 2018-19 and £180 million in 2019-20. This has been revised down to nil and £75 million respectively. HMRC is confident the revised timetable will be met, though past evidence compels us to note it as a continuing risk.
- **Extending landfill tax to illegal waste sites:** this measure made waste disposals at sites without an environmental permit liable for landfill tax. It was announced in the 2017 Autumn Budget and was due to begin in April 2018. The original costing was predicated on HMRC recruiting the necessary compliance staff ahead of that date, which it did. But it did not allow for a delay in putting the relevant health and safety procedures in place to safeguard those staff. This delay means compliance activity only began in September 2018, reducing the expected yield in 2018-19.

Other policy updates

A.22 We have incorporated updates to several other measures in this forecast. First, we have revisited the **Budget 2018 package of universal credit measures** that we were unable to certify as 'reasonable and central' at the time. We noted in October that "*Experience warns that mistakes are inevitable when such changes are estimated in haste late in a Budget process*". This has proved to be the case, although thankfully the issues that were revealed in the recosting process were relatively minor. First, DWP analysts were not aware of the Budget income tax personal allowance measures. These affect universal credit because awards are tapered with post-tax income. Factoring this in reduces the cost of the package modestly. Second, errors were identified in the modelling of certain elements where incorrect baselines had been used and there was insufficient time for quality assurance processes to pick that up. These were the kinds of issues that we had in mind when choosing not to certify the package in October. This updated costing lowers the overall cost by around £100 million a year, so that it now reaches £2.0 billion in 2023-24.

A.23 Other updates include:

- **Corporation tax reliefs:** in October, we reported on the rising cost of corporation tax reliefs, including R&D tax credits and 'creative' sector reliefs. Company tax credits were expected to cost £5 billion a year by 2023-24. This has been revised up by around 12 per cent a year in this forecast, with increases across both categories. Our latest forecast for 2023-24 is £5.6 billion, continuing the substantial increase in cost since 2015-16. We will work with HMRC to examine the reasons for the continuing growth in the costs of these and other tax reliefs and will return to the issue in a future report.

- **Corporation tax: bank compensation payments:** this was announced at Summer Budget 2015 to prevent banks from obtaining corporation tax (CT) deductions for provisions they had set aside to compensate customers, mainly relating to payment protection insurance (PPI). In March 2017, the Financial Conduct Authority announced a 29 August 2019 deadline for PPI claims, which prompted an increase in claims. This avoided the loss of around £0.3 billion of revenue in 2017-18, £0.1 billion more than originally forecast, as banks responded by increasing provisions but these were not deductible for CT purposes. HMRC believes that additional PPI-related provisions are unlikely, and that the existing stock will probably unwind by the end of 2019-20. This has lowered our CT forecast by an average of £0.1 billion in 2018-19 and 2019-20.

- **Alcohol wholesaler registration scheme:** in December 2013 a mandatory registration scheme for alcohol wholesalers was announced. Licenses would only be issued to operators passing a 'fit and proper' test. It took effect in January 2016, and initial outturn data suggested fewer, but higher value, cases than originally expected. In November 2017 we revised the average value of a case from £50,000 to £254,000. The average yield has since fallen to £142,000, prompting us to lower the expected yield from this measure by around £100 million a year. This remains uncertain. The mix of traders registering has also changed relative to what was originally expected, with small breweries and distilleries accounting for most new applications in the past two years, reflecting the rising popularity of craft beers and gins.

- **Soft drinks industry levy:** this measure came into effect (on time) in April 2018, two years after it was announced in the 2016 Budget. It was originally expected to raise over £500 million a year, but this estimate was subsequently revised down as manufacturers appeared to be lowering the sugar content of their drinks by more than originally thought. Revised data also suggested the tax base had been significantly overestimated. Our October forecast was for receipts of £250 million a year. We now have outturn data for the first three quarters of the levy's operation, which have prompted us to revise that up to around £340 million a year. Several factors could explain the unexpected strength in receipts relative to our October forecast: consumers may be less price sensitive than previously thought; the tax base could be larger; reformulation could be taking place more slowly; or the assumed tax gap could be smaller than previously assumed.

- **Help to Buy ISA** and **Lifetime ISA:** these are savings products providing a regular top-up from the Government. We have previously reported that initial take-up for both – which we highlighted as highly uncertain at the time of the original costings – has fallen short of expectations. We have revised down top-up related spending on both further in this forecast. The Help to Buy ISA was announced in the 2015 Budget and launched in December that year. We expect spending to average £170 million over the current forecast period, down 13 per cent on our October forecast. The 2015 Budget costing expected spending to rise to £835 million in 2019-20 – our latest estimate for that year is £150 million, a shortfall of 82 per cent. The Lifetime ISA was announced in the 2016 Budget and took effect in April 2017. Further weakness in outturns since our October forecast have led us to revise spending down by around 20 per cent a year. The original costing expected it to reach £845 million in 2020-21 – our current forecast is £420 million, a shortfall of 50 per cent.

- **Help to Save:** in the 2016 Budget, the Government announced the introduction of a regular savings account for certain low-income recipients of tax credits and universal credit. Savers can save up to £50 a month and receive a 50 per cent top-up from the Government after two years, with an option to continue saving for a further two years. After a six-month delay, Help to Save was launched in September 2018. Take-up was always expected to be low as the target population is not one that typically has money spare for regular savings. Year-to-date outturns suggest the number of new accounts has been lower than we expected. Our October forecast assumed 195,000 accounts would be opened by the end of 2018-19, but by the end of January there were only 90,450 live accounts. We have therefore lowered our forecast for spending on top-ups by around 50 per cent from 2020-21 onwards, when the first accounts mature.

- **Making tax digital:** since our October forecast, HMRC reports that progress has been made with its making tax digital programme, ahead of the full launch in April. At the time of writing, 37,000 VAT businesses had signed up[8] and by the end of April this is due to rise to around 300,000. We will revisit this in future forecasts.

- **Common reporting standard and worldwide disclosure facility:** This Budget 2015 announcement gave UK taxpayers the opportunity to disclose their tax affairs voluntarily – via the 'worldwide disclosure facility' (WDF) – before HMRC received details about offshore financial accounts as part of an international exchange of information – the common reporting standard (CRS). In October, we revised down the expected WDF yield in 2018-19 from £235 million to £195 million, to reflect an assumed change in the settlement pattern. HMRC has informed us that, by end of

[8] This includes all businesses and clients (signed up by their agents). It includes a mixture of customers above and below the VAT threshold.

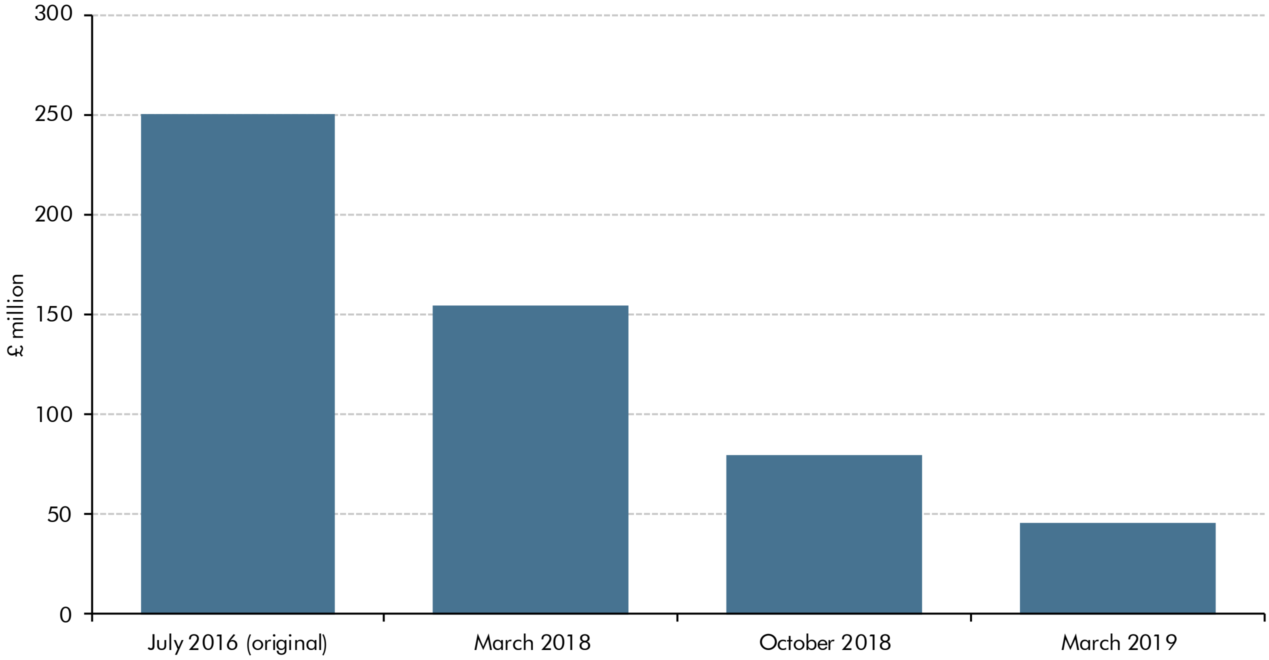
January, around £120 million had been disclosed directly through the WDF.[9] HMRC has also told us that it has now had two successful CRS data exchanges – 1.5 million accounts in September 2017 and a further 5 million in September 2018. HMRC is conducting compliance activity based on the first exchange, while the second remains at the data-processing stage. We have asked HMRC to report on both the WDF and the CRS ahead of our autumn forecast.

- **Customs declaration service:** HMRC's customs declaration service (CDS) – built to handle 300 million import and export declarations a year – will be rolled out at a slower pace than we reported in October. It had been scheduled to be fully rolled out in March 2019 but, at the time of writing, CDS has only processed 500 declarations from four traders.[10] Instead, HMRC has prioritised the upgrading of its existing 'customs handling of import and export freight' (CHIEF) system and remains confident that its existing operations will not be affected. The risk posed by the smooth operation of these systems to our forecasts for VAT and customs duties would be greater in scenarios in which customs duties were levied on imports from the EU – which is not a feature of the broad-brush Brexit assumptions that underpin our central forecast. HMRC agrees there are revenue risks from running a sub-optimal customs model, such as in a 'no deal' Brexit, and that these largely arise from a potential lack of readiness from businesses submitting customs declarations, rather than its systems.

- **Support for mortgage interest:** in Summer Budget 2015, the Government announced that, from April 2018, support for mortgage interest (SMI) would switch from being a non-repayable benefit payment to an interest-bearing loan, secured against a mortgaged property and due to be repaid upon death or the sale of the property. This measure was originally due to reduce welfare spending by £270 million in 2018-19 and to increase lending (which affects debt but not the deficit) by a broadly equivalent amount. While the effect on spending has happened, far fewer people than expected have taken up the loan instead. As a result we have made successive downward revisions to SMI-related lending (see Chart A.1). We now expect just 24,000 claimants to take-up the loan in 2018-19, compared to 98,000 expected originally, a shortfall of 76 per cent. We have revised down take-up in future years too. But we have revised down lending by less than the number of recipients, because the average loan size among those fewer-than-expected recipients has been larger than assumed.

[9] Some of this amount has not yet been finalised.
[10] HMRC evidence to the Public Accounts Committee, 4 March 2019, and National Audit Office report on *The UK border: preparedness for EU exit update*, 27 February 2019.

Chart A.1: Support for mortgage interest: forecast loan outlays in 2018-19



Source: OBR

Policy risks

A.24 Parliament requires that our forecasts only reflect current Government policy. As such, when the Government or governing party sets out 'ambitions' or 'intentions' we ask the Treasury to confirm whether they represent firm policy. We use that information to determine what should be reflected in our forecast. Where they are not yet firm policy, we note them as a source of risk to our central forecast. Abstracting from the wider policy uncertainty associated with the negotiations on leaving the EU, we note:

- DWP's December 2017 **review of automatic enrolment into workplace pensions** made several new proposals, including reducing the age threshold from 22 to 18 and calculating pension contributions from the first pound earned rather than from the lower earnings limit for NICs. The Treasury has told us that these remain proposals, so we have not included their effects in our economy or fiscal forecasts. Auto-enrolment in its present form is factored into our economy forecast as a wedge between total employee compensation and wages, while tax relief on the employee contributions features in our income tax forecast. These proposals would increase both effects.

- The **ruling on widowed parent's allowance** by the Supreme Court in August 2018. The ruling deemed that the exclusion of unmarried couples was incompatible with the principles of the European Convention on Human Rights. If the Government responds by changing the entitlement of unmarried couples, we will include it in our forecast.

- The **'worldwide harmonised light vehicle test procedure' (WLTP)** for testing the emission levels of new passenger cars is set to replace the previous 'new European driving cycle' test for vehicle excise duty (VED) banding from 2020-21. The new test is more rigorous than the previous one, so it is expected to move some vehicles into higher VED bands. The Government launched a review of the impact of WLTP, which closed in February 2019, but no policy changes have yet been announced.

- The Government announced the intention to introduce **a tax on plastic packaging** from April 2022. It is now consulting on the design and rates of the tax, and the consultation will close in May 2019. We will include this in our central forecast once a decision with sufficient detail on design allows us to forecast year-by-year impacts.

- Possible faster **increases in the National Living Wage (NLW)**. In Budget 2018, the Government set out an aspiration to end low pay as defined by the OECD i.e. two-thirds of median earnings. An increase in the NLW to this level from the 60 per cent of median hourly earnings that it is set to reach in 2020 could have material consequences for employment, tax receipts and welfare spending, as discussed in Box 3.3 of our October 2018 *EFO*. The Treasury told us that the Government is "*planning to engage with stakeholders including the Low Pay Commission, as well as employers and the TUC, to gather evidence and views*" over the coming months, with the intention to set the post-2020 remit for the Low Pay Commission in the 2019 Budget.

- The intention to **localise all business rates** and to provide some additional discretion to local authorities in setting them, while also shifting some spending responsibilities to local authorities. In October 2015 the Government pledged that "*by the end of the Parliament, local government should retain all taxes raised locally, including 100% of locally collected business rates*". This ambition was restated in the 2019-20 local government finance settlement technical consultation, but the precise timetable remains unclear. The Government has been running pilot schemes in selected authorities since 2017-18, with further pilots announced since our October forecast.

- The **intention to expand right-to-buy to tenants of housing associations**. An initial pilot scheme ran from January 2016 to July 2017 and an expanded pilot was launched in August 2018. The Housing and Planning Act was passed in May 2016, but the Government has again informed us that the secondary legislation detailing how the full right-to-buy policy will work remains ongoing. Until these details are specified and the implementation timetable is sufficiently clear, we cannot estimate the effects of this policy on a year-by-year basis. An expansion to right-to-buy would require the Government to compensate housing associations for the discounts in the sale price of property, as well as having consequences for benefit eligibility for some individuals.

- The **incentives for landlords that offer tenancies of at least 12 months**. In November 2017 the Government announced that it "*will consult on the barriers to landlords offering longer, more secure tenancies to those tenants who want them*". The consultation closed on 26 August 2018, but the Government has not yet issued a response and policy decisions have not yet been taken.

- The **ban on Help to Buy equity loans for leasehold houses**. In February 2017 the Government launched a White Paper on the leasehold market, and the consultation on it closed in December 2017, with the Government subsequently announcing it intended to bring forward "*legislation to ban future leasehold house sales*". In July 2018, the Government announced it would in future stop Help to Buy funds being used for "*unjustified new leasehold houses*", but gave no timeframe for implementing this. We have been told that the Government has not yet decided when it will do so.

- The consultation on the **surcharge on stamp duty land tax for non-resident buyers** acquiring residential property in England and Northern Ireland was launched in February 2019 and will close in May 2019. The design and implementation of this policy remain subject to the outcome of the consultation.

- Prospective reforms to **adult social care**. Having postponed implementation of reforms underpinned by the 2011 'Dilnot Commission', the Government announced in December 2017 that it would publish a green paper on the future of adult social care in the summer of 2018. This too has been delayed, and a new date has yet to be set.

- The **'Augur' review of post-18 education funding** was launched in February 2018 but its publication date has yet to be announced. It covers the level, terms and duration of students' financial contribution to their post-18 education. Given the scale of outlays on student loans, any ensuing policy changes could have material effects on our forecast. These would also depend on the accounting changes discussed in Annex B.

- The Government announced the **structures and buildings allowance** at Budget 2018 saying it would "*addresses a significant gap in the UK's current capital allowances regime, and will improve the international competitiveness of the UK's tax system*". On the same day, HMRC published a technical report that set out how much of the benefit gained from the allowance may eventually be clawed back through future increases in capital gains tax liability. How this mechanism will work has yet to be finalised.

- The provision of a **centrally funded clinical negligence scheme for general practitioners**. The Department of Health and Social Care has announced it wants to "*protect the general practice workforce against rising indemnity costs*", and will therefore replace the current insurance system with a Government-run scheme from April 2019. It has not yet detailed how this will operate and how it might affect the Government's contingent liabilities or the way in which GPs pay is determined.

A.25 Several policy risks relate to the devolution of fiscal powers:

- The **devolution of corporation tax to Northern Ireland**. The Corporation Tax (Northern Ireland) Act received Royal Assent in March 2015, with devolution originally due to have begun in April 2018. The Northern Ireland Executive has previously announced its intention to set a 12.5 per cent rate to match that of the Republic of Ireland. While primary legislation has been passed, final devolution is subject to agreement between the UK Government and the Northern Ireland Executive. This has yet to be reached, as the Executive is currently suspended, so the effect of the proposed tax cut has not been included in our central forecast.

- The **devolution of air passenger duty (APD) to the Scottish Parliament**. The Scotland Act 2016 included provisions for the devolution of APD and the Scottish Government initially announced this would be replaced by an air departure tax (ADT) from April 2018. But devolution has been delayed pending clarity over the Highlands and Islands exemption. Both the UK and Scottish Governments have confirmed that devolution remains on hold. The Scottish Government has previously said it intends to set ADT rates at half the level of APD rates. As the timing of APD devolution is still uncertain, we have not included it, or the effect of the proposed tax cut, in our central forecast.

- Further **devolution of social security benefits to Scotland**. The Scotland Act also allows for the devolution of several benefits to the Scottish Parliament, including carer's allowance and disability benefits. The Scottish Government set up a new executive agency, Social Security Scotland, in April 2018, and started making carer's allowance supplement payments in September 2018. The Scottish Government will take on legal responsibility for disability benefits (worth around £2.5 billion a year) from 1 April 2020. It has published a consultation on their replacement. Devolution is unlikely to affect spending materially, but as the details of the replacement system are yet to be settled, we have not included that in our central forecast.

- The **devolution of aggregates levy to Scotland and Wales**. The Scotland Act 2016 also provides for the devolution of aggregates levy to Scotland, and the UK Government has announced its intention to devolve this tax to Wales as well. Devolution was delayed pending completion of a court case regarding state aid, but legal proceedings were dropped in February 2019, clearing the way for devolution to be implemented. But the timeline for devolution has not been confirmed yet.

- The Scottish Government is considering the introduction of a **'transient visitor levy'** (TVL) – the so-called 'tourist tax' – announced in the Scottish Budget in December 2018. The introduction and administration of the TVL would be left to local authorities; the Scottish Government has said it has "*no plans to implement such a tax*" at a Scotland level, but has launched a Scotland-wide consultation on the potential legislation for powers to introduce it. The City of Edinburgh Council recently announced that it intends to pursue a TVL, subject to Scottish Parliament legislation.

A.26 There are many policy uncertainties regarding Brexit that are discussed throughout this document. We also reviewed the uncertainties around possible substitute spending once the UK's contributions to the EU budget end in Annex B of our March 2017 *EFO*. There are also several policy risks to specific to individual lines of our fiscal forecasts:

- The **UK's participation in the EU emissions trading system (ETS) beyond 2020**. The draft Withdrawal Agreement between the UK Government and the EU sets out that the UK will remain in the scheme until the end of the transition period, but no decision has been made on the details of what will happen beyond 2020, other than that the UK will implement a system of carbon pricing of at least the same effectiveness and scope as the EU ETS. The political declaration on the future relationship between the UK and the EU states that the UK will consider linking a future carbon pricing system with the

EU ETS. The Government has also legislated for the introduction of a carbon emissions tax from April 2019 if the UK were to leave the EU without a deal.

- The **access to funding for higher education for EU students beyond 2020**. The draft Withdrawal Agreement provides for EU students to retain access to funding during the transition period, but no decision has been made on what will happen beyond 2020.

- The **support scheme for traders facing import VAT on goods imported from the EU**. The Government has announced it will introduce deferred accounting for import VAT on goods from the EU in the event of a 'no deal' Brexit. But it has not decided on what support scheme would be put in place after the transition period.