

# Revised estimate of the fiscal impact of Spending Review 2010, based on the OBR's November *Economic and fiscal outlook*

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1. This note sets out the revised estimate of the fiscal impact of Spending Review 2010, based on the Office for Budget Responsibility's (OBR) November *Economic and fiscal outlook*. The Government is responsible for analysis of the direct impact of policy on the public finances, and for any explanation of this impact. All the figures set out in this document are consistent with the OBR's latest forecast.

2. There are no new policy measures in this note. All the measures included here were set out at Spending Review 2010. Details of the methodologies of the Annually Managed Expenditure (AME) savings were published for the first time in the document *Spending Review 2010 policy costings*. Each methodology was also scrutinised and certified by the OBR. Unless otherwise stated here, the costing methodology remains the same as previously published, and as previously certified by the OBR.

## Fiscal impact of measures announced since Budget 2010

3. Table 1 shows the direct fiscal effects of measures announced at Spending Review 2010. These measures affect Public Sector Net Borrowing (PSNB) either through spending or tax.

4. On tax, the measures announced at Spending Review 2010 on tax credits, council tax benefit and Employment and Support Allowance (ESA) will have a direct impact on public sector current receipts (PSCR).<sup>1</sup> This is due to the accounting treatment of these measures and not a change in the policy announced at Spending Review 2010. The net effect of these measures is to increase receipts by £0.1bn / £0.2bn / £0.7bn / £0.7bn from 2011-12. This does not include any indirect effects of measures on labour supply, wages and salaries or other economic variables, which will be reflected in the OBR's latest economic forecast.

5. On spending, the two main fiscal effects of Spending Review 2010 were to increase Public Sector Gross Investment (PSGI) by £2.0bn / £2.0bn / £2.3bn / £2.3bn from 2011-12; and to increase resource Departmental Expenditure Limits (DEL), funded by further savings on AME. The increase in capital DEL is different to the overall increase in PSGI because of switches between capital AME and capital DEL as a result of measures and changes to SUME. The AME savings announced at Spending Review 2010 were certified by the OBR and estimated on the basis of the OBR's June forecast. Updating the forecast has changed the estimates of AME savings due to a revised underlying AME forecast, and this reduction in savings of £0.0bn / £0.1bn / £0.8bn / £0.9bn from 2011-12 also has a net fiscal effect.

6. The net fiscal effect of these Spending Review 2010 policy decisions on spending and tax receipts, including creating an AME margin against the risk of changes to the AME forecast, is to increase PSNB by £1.9bn / £1.9bn / £1.3bn / £2.5bn / £0.7bn from 2011-12.

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<sup>1</sup> Tax credit expenditure is partly classified as negative tax, so any savings create an equivalent increase in receipts. Council tax benefit savings reduce DWP spending but as a result of the impact on Local Authority Self-Financed Expenditure the net effect is to increase PSCR. The contributory element of ESA is taxable, so a reduction in this element will directly reduce receipts.

**Table 1: Direct fiscal impact of measures announced since Budget 2010 <sup>1</sup>**

	(+ve is an Exchequer yield)				£ million	
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Changes to receipts in Spending Review <sup>2</sup>	0	+90	+180	+715	+740	+750
<b>Direct tax impacts of AME measures</b>	<b>0</b>	<b>+90</b>	<b>+180</b>	<b>+715</b>	<b>+740</b>	<b>+750</b>
<b>Changes to spending in Spending Review</b>						
Capital DEL <sup>3,4</sup>	0	-2,030	-2,255	-2,235	-1,585	-1,860
of which:						
Change in PSGI	0	-2,000	-2,000	-2,250	-2,295	-
Other changes	0	-25	-255	+15	+710	-
Resource DEL <sup>3,4, 5</sup>	0	+370	-1,585	-4,775	-7,265	-9,425
AME	0	+675	+3,775	+8,005	+9,620	+9,875
of which:						
Impact of AME measures as announced	0	+655	+3,840	+8,760	+10,555	-
Changes to costings as a result of the OBR's updated forecast	0	+20	-65	-755	-935	+9,880
AME Margin	0	-1,000	-2,000	-3,000	-4,000	-
<b>Total changes to spending in Spending Review</b>	<b>0</b>	<b>-1,980</b>	<b>-2,065</b>	<b>-2,005</b>	<b>-3,230</b>	<b>-1,405</b>
<b>TOTAL SPENDING REVIEW 2010 POLICY</b>	<b>0</b>	<b>-1,890</b>	<b>-1,885</b>	<b>-1,290</b>	<b>-2,490</b>	<b>-655</b>

**AME margin**

At the Spending Review the Government created an AME margin against the risk of changes to the AME forecast. As the OBR produces a central forecast of all AME components this AME margin was removed from the November AME forecast. For the purposes of comparison with Table 4.4 in the OBR's Autumn *Economic and fiscal outlook*, the impact of excluding this AME margin would be:

<b>Memo: total SR2010 policy excluding AME margin</b>	<b>0</b>	<b>-890</b>	<b>+115</b>	<b>+1,710</b>	<b>+1,510</b>	<b>-655</b>
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<sup>1</sup> Costings reflect the OBR's November 2010 economic forecast and assumptions

<sup>2</sup> This includes both the negative tax components of all tax credit measures, and the Council Tax Benefit measure announced at Spending Review 2010.

<sup>3</sup> Within the given spending envelope at Spending Review 2010, changes to AME were offset by an equivalent change to DEL. This included AME policy measures net of the AME margin, changes to SUME, changes to depreciation and the costs of subsidised interest on student loans.

<sup>4</sup> The figures shown for 2015-16 are implied DELs, calculated by assuming that PSCE and PSGI remain constant in real terms.

<sup>5</sup> Excluding Green Investment Bank in 2013-14, because this spending is expected to take the form of financial transactions, which do not affect net borrowing

**Revised estimates of savings from Spending Review AME measures**

7. Table 2 sets out the revised estimates of the savings from each measure shown in table 3 of Spending Review 2010, based on the OBR's latest forecast. These costings are being included in the OBR's forecast for the first time.

8. As set out above, the figures show the direct effects of measures, and do not include their wider indirect effects, which are captured in the OBR's *Economic and fiscal outlook*. This is consistent with the policy costing methodology set out in *Spending Review 2010 policy costings*.

9. Where a spending measure has been marked as Spend/tax this indicates that the costing includes a direct tax impact. The costings shown in table 2 include this tax component. This follows the same approach taken in previous Budgets, and has been used to show the full direct fiscal impact of policy changes.

**Table 2: Updated costings for Spending Review 2010 AME measures yet to take effect, based on the OBR's November *Economic and fiscal outlook***

Head	(+ve is an Exchequer yield)				£ million		
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	
<b>Measures announced at the 2010 Spending Review</b>							
Contributory Employment and Support Allowance: time limit for those in the Work Related Activity Group to one year <sup>1</sup>	Spend/tax	0	0	+820	+1,085	+1,370	+1,440
Working Tax Credit: freeze in the basic and 30 hour elements for three years from 2011-12 <sup>1</sup>	Spend/tax	0	+270	+610	+800	+835	+835
Working Tax Credit: reduce payable costs through childcare element from 80% to 70% restoring 2006 rate <sup>1</sup>	Spend/tax	0	+335	+365	+375	+385	+405
Child Tax Credit: increase the child element by £30 in 2011 and £50 in 2012 <sup>1</sup>	Spend/tax	0	-265	-690	-740	-765	-730
Working Tax Credit: increase working hours requirement for couples with children to 24 hours <sup>1</sup>	Spend/tax	0	0	+540	+530	+535	+545
Child and Working Tax Credits: use real time information <sup>1</sup>	Spend/tax	0	0	0	0	+385	+365
Council Tax Benefit: 10% reduction in expenditure and localisation	Spend/tax	0	0	0	+510	+520	+525
Housing Benefit: increase age limit for shared room rate from 25 to 35	Spend	0	0	+130	+225	+215	+205
Total household benefit payments capped on the basis of average take-home pay for working households	Spend	0	0	0	+225	+270	+270
Disability Living Allowance: remove mobility components for claimants in residential care	Spend	0	0	+75	+155	+160	+160
Savings Credit: freeze maximum award for four years from 2011-12	Spend	0	+225	+270	+320	+395	+405
Support for Mortgage Interest: extend temporary changes to waiting period and capital limit until January 2012	Spend	0	-90	-10	0	0	0
Cold Weather Payments: increase rate permanently to £25 from November 2010	Spend	0	-50	-50	-50	-50	-50
Child Benefit: remove from families with a higher rate taxpayer from January 2013	Spend	0	0	+605	+2,510	+2,590	+2,670
Public sector pensions: increase in employment contribution rates	Spend	0	0	+160	+1,270	+1,760	+1,850
Renewable Heat Incentives: efficiency savings	Spend	0	+5	+15	+45	+110	+180
Carbon Reduction Commitment: no recycling of revenues	Spend	0	+715	+730	+995	+1,020	+1,040
HM Treasury: reduction in metal cost for coinage	Spend	0	+10	+10	+10	+10	+10
Equitable life payments	Spend	0	-520	-315	-210	-100	-70
Capitalisation: support for local authority restructuring	Spend	0	-240	0	0	0	0
Public Works Loan Board: interest rate increase	Spend	0	+165	+330	+400	+465	+525
TfL Metronet: replace borrowing with central government grant	Spend	0	+325	+300	+200	+185	0
Right to Buy: surrender full receipts to Exchequer receipts	Spend	0	+30	+35	+40	+40	+45
Housing Revenue Account System: reform	Spend	0	+25	+25	+25	+25	+5
Northern Ireland Reinvestment and Reform Initiative	Spend	0	-175	0	0	0	0
<b>TOTAL IMPACT ON PSCE</b>		<b>0</b>	<b>+675</b>	<b>+3,775</b>	<b>+8,005</b>	<b>+9,620</b>	<b>+9,880</b>
<b>TOTAL IMPACT ON PSCR</b>		<b>0</b>	<b>+90</b>	<b>+180</b>	<b>+715</b>	<b>+740</b>	<b>+750</b>

<sup>1</sup> Costings include both spending and negative tax elements.

**10.** There are two main revisions to the costings of policies in table 2 as a result of the OBR's updated forecast. First, estimates of savings from ESA are £1.4bn by 2014-15, £600m lower than estimated at Spending Review 2010. This reduction in savings is mainly due to the lower forecast expenditure on ESA overall in the OBR's latest forecast – with fewer people estimated to receive the contributory element of ESA than in June.

**11.** Second, the measure to localise Council Tax Benefit reduces DWP spending, but leads to a change in receipts. This is not a change to the policy, but reflects the accounting treatment of Council Tax Benefit and Local Authority Self-Financed Expenditure. This means that AME savings are £520m lower than otherwise in 2014-15 and receipts are £520m higher than otherwise.