A Policy measures

Overview

A.1 Our *Economic and fiscal outlook* (*EFO*) forecasts incorporate the expected impact of the policy decisions announced in each Budget or other fiscal statement, and all other policies announced since our previous forecast. In the run-up to each one, the Government provides us with draft estimates of the 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. After this process is complete, the Government chooses which measures to announce and which costings to include in its main policy decisions scorecard. For these scorecard costings we choose whether to certify them as 'reasonable and central', and whether to include them – or alternative costings of our own – in our forecast. We also include the effects of policy decisions that do not appear on the scorecard.

A.2 The policy process in the run-up to this *EFO* was influenced by the Russian invasion of Ukraine, which required us to reopen our pre-measures forecast in the final round and meant policymakers' focus shifted to the international response as well as the implications of higher energy prices for the cost of living in the UK. Even so, the costings process worked reasonably efficiently, with information generally being provided in as timely a manner as practicable and requests for additional information mostly being met promptly too. We have certified all but two tax and AME measures announced since October as reasonable and central. The two uncertified costings relate to:

- The punitive **tariffs on selected imports from Russia and Belarus** that were announced on 15 March as part of the international response to the invasion, estimates for which understandably were not available in time to complete a scrutiny process.

- The **zero rate of Class 2 NICs** for self-employed individuals with profits between the small profits threshold and the lower profits limit. The costing for this measure was received several days after the agreed deadline, leaving insufficient time for scrutiny.

A.3 In both instances we have used the Treasury's estimate in this forecast and will revisit the costings in our next forecast. A third measure, the 5 pence cut in fuel duty, was certified despite the final decision on it coming too late for its effects on inflation to be correctly reflected in our final economy forecast (see Chapter 2). This estimate was certified because the late change to the policy did not affect the previously certified costing methodology.

A.4 Table A.1 summarises the direct and indirect effects of the Government's policy decisions. Table A.2 reproduces the Treasury scorecard alongside our subjective assessment of the uncertainty around each costing. Table A.3 provides the costings and uncertainty assessments of non-scorecard measures.[1]

Policy announcements

The March 2022 Spring Statement

A.5 Our forecast incorporates the fiscal implications of all policy measures announced since October 2021. Their effect is largely the result of three major packages: (i) a set of **energy cost** measures that smooth the impact of pre-invasion energy price rises on household bills and of more recent petrol price rises for motorists, but recoup some of that support over time; (ii) a set of reforms to **student loans** that forms part of the Government's response to the 2019 Augar Review; and (iii) a pair of **personal tax cuts** in income tax and NICs that gives back just over a quarter[2] of the sums raised via income tax threshold freezes and the NICs rate rise that were announced last year and take effect in April. The overall impact of policy decisions is largely the sum of these three packages, amounting to a material fiscal giveaway to households in the medium term, whose cost is partly offset by long-term fiscal savings from the student loans reforms that are recorded upfront in borrowing.

A.6 The net effect of all policy measures announced since October raises borrowing by £8.3 billion in 2022-23, and an average of £2.1 billion a year thereafter. The largest fiscal giveaways are this year's temporary support for energy and fuel costs and the personal tax cuts that take effect from this July (for NICs) and from April 2024 (for income tax). The largest fiscal takeaway comes from the long-term savings on student loans, which reduce borrowing for the Government in every year of the forecast, but for affected students the costs will be borne over a period of decades. In thinking about the economic impact of measures announced since October, it is therefore helpful to strip out the effects of student loans reforms on borrowing. On that basis, fiscal policy has been eased by £19.4 billion in 2022-23 (0.8 per cent of GDP), and by an average of £7.5 billion (0.3 per cent of GDP) a year from 2023-24 onwards – a material medium-term fiscal easing.

A.7 Table A.1 presents the direct and indirect effects of new policy announcements since October. The **energy cost support** measures provide £13.4 billion of support, mostly in 2022-23, just under half of which is recouped between 2023-24 and 2027-28. There are three components to the package:

- On 3 February the Government responded to the 54 per cent rise in Ofgem's price cap on domestic energy bills through a mixture of **rebates and discounts on household bills**. This includes a council tax rebate of £150 in April, available to around 80 per cent of households (those in bands A to D) and a £200 energy bill discount in October for all domestic electricity customers. In addition, a discretionary fund totalling £144

[1] A full breakdown of each costing is available in the online supplementary scorecard that we publish alongside this *EFO*. Our online *Policy measures database* also includes these breakdowns, as well as costings from previous fiscal events.
[2] This captures changes to income tax, NICs (including employer NICs) and the health and social care levy over the five years from 2022-23 to 2026-27, including the recosting of policies, as set out in Table A.5.

million will be made available to local authorities, with an extra £40 million to finance setting up the scheme. This amounts to £8.9 billion of support for household energy bills in 2022-23. From 2023-24 onwards, the discount on bills will be clawed back via **a new charge applied to household energy bills** for five years. This will be levied at a rate of close to £40 a year, raising £1.2 billion a year, with the rate set to precisely recoup the estimated £6.0 billion distributed via the discount in October.[3]

- The Government has **reduced fuel duty by 5 pence for a single year from 23 March 2022**, at a cost of £2.4 billion in 2022-23. This marks the first change in the duty rate since April 2011 (when it was cut by a penny) despite successive Governments stating every year since 2010 that default policy is to increase rates by RPI inflation. The current policy – which we must use as the basis of our forecast – is to reverse the rate cut in 12 months' time and revert to increasing it by RPI inflation, which currently implies an 8 pence rise to protect fuel duty revenue from 2023-24 onwards.

- The Government's **bailout of Bulb Energy** incurs a £1.2 billion cost in 2021-22 and a further £1.0 billion in 2022-23, to cover the company's operating losses. Given the volatility in global energy markets, there remains uncertainty around the final cost.

A.8 The second main element of the policies in this Spring Statement are two significant cuts to personal taxes costing £6.3 billion in 2022-23 rising to £10.4 billion a year on average from 2024-25 onwards:

- The Government has met its 2019 manifesto commitment to **raise the primary threshold for employee NICs** and the lower profits limit for self-employed NICs to the level of the income tax personal allowance. This will take effect from July of this year, raising the two NICs thresholds from £9,880 to £12,570. This is a tax cut for almost 30 million workers equivalent to around £290 over a full year (and £220 in 2022-23). It costs £6.3 billion in 2022-23 and by diminishing amounts until 2025-26, with the profile reflecting the personal allowance being frozen until 2025-26, whereas absent this measure the NICs thresholds were due to be uprated by CPI inflation each year.

- A **1 percentage point cut in the basic rate of income tax from 20 to 19 per cent**, from April 2024. This is the first change to the basic rate in 15 years (when it was cut from 22 to 20 per cent). It also benefits around 30 million taxpayers by an average of £170 a year. It costs an average of £5.8 billion a year from 2024-25 onwards.

A.9 On 24 February the Government announced a package of **student loans reforms** that lower borrowing by £2.3 billion in 2021-22, £11.2 billion next year, and an average of £5.4 billion a year over the remaining years of the forecast. The accounting for student loans in the public finances is complex. In effect, the reforms amount to the equivalent of an income tax rise for most existing and new students over their working lives. This reflects, first, repayment thresholds being frozen for existing borrowers and lowered for new borrowers (equivalent to freezing or reducing the income tax personal allowance), and second, the

[3] All customers will be liable for the new charge, so levying it at precisely £40 would be expected to raise more than the cost of the discount due to growth in the number of households from year to year.

extension of loan terms from 30 to 40 years for new borrowers (equivalent to imposing a 9 percentage point marginal income tax rise for a period of up to a decade for those affected, three decades into the future). The long-term fiscal savings from these changes are accrued upfront and therefore reduce borrowing in the medium term. The full fiscal effects of these measures on both borrowing and debt are set out in Box A.1.

A.10 The **indirect effects** of measures announced since October are small and uneven across the forecast period, reflecting the modest boost to output and receipts from the discretionary fiscal easing (whose effect is largest in 2022-23) and the modest additions to debt interest and welfare spending from slightly higher inflation (whose effect is more persistent).[4]

Table A.1: Total effect of Government decisions since October 2021

	£ billion					
	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Total effect of Government decisions	**-4.2**	**6.1**	**1.2**	**4.3**	**3.9**	**2.5**
of which:						
Direct effect of scorecard policies	-2.2	8.4	0.6	3.5	2.8	1.1
Direct effect of non-scorecard policies	-2.1	-0.1	0.0	0.1	0.1	0.1
Indirect effect of Government decisions	0.0	-2.1	0.5	0.7	1.0	1.3
Direct effect of scorecard policies	**-2.2**	**8.4**	**0.6**	**3.5**	**2.8**	**1.1**
of which:						
Receipts	**-0.1**	**8.1**	**3.6**	**8.0**	**8.7**	**8.7**
of which:						
NICs: increase in thresholds	0.0	6.5	6.2	5.1	4.6	4.8
Income tax: 1p basic rate cut	0.0	0.0	0.0	5.0	5.7	5.6
Fuel duty: 5p cut	0.0	2.4	0.0	0.0	0.0	0.0
Energy bills clawback	0.0	0.0	-1.2	-1.2	-1.2	-1.2
Student loans reforms	-0.1	-0.8	-1.2	-0.7	-0.6	-0.6
Resource DEL and Scottish AME	**0.0**	**6.7**	**0.1**	**0.5**	**0.6**	**0.2**
of which:						
£200 energy bills discount	0.0	6.0	0.0	0.0	0.0	0.0
Capital DEL and Scottish AME	**0.0**	**1.0**	**0.0**	**0.0**	**0.0**	**-0.1**
of which:						
Bulb Energy bailout	0.0	1.0	0.0	0.0	0.0	0.0
AME spending (excluding Scottish)	**-2.1**	**-7.4**	**-3.2**	**-5.1**	**-6.5**	**-7.6**
of which:						
Student loans reforms	-2.2	-10.3	-2.6	-4.1	-5.5	-6.4
£150 council tax rebate	0.0	2.9	0.0	0.0	0.0	0.0
Direct effect of non-scorecard policies	**-2.1**	**-0.1**	**0.0**	**0.1**	**0.1**	**0.1**
of which:						
Spending decisions	-2.1	-0.1	-0.1	-0.2	-0.2	-0.2
of which:						
Bulb Energy bailout	1.2	0.0	0.0	0.0	0.0	0.0
Tax decisions	0.0	0.0	0.2	0.3	0.3	0.3

Note: This table uses the convention that a positive sign implies an increase in borrowing.

[4] As a result of needing to reopen our pre-measures forecast alongside factoring in policy measures in a single forecast round, this indirect effect has been calculated top-down rather than via our standard practice of comparing pre- and post-measures economy forecasts to calculate the fiscal consequences of differences between them.

A.11 Table A.2 reproduces the Treasury scorecard alongside our subjective assessment of the uncertainty around each costing.

Table A.2: Treasury scorecard of policy decisions and OBR assessment of the uncertainty of costings

		Head[2]	£ million[1]						Uncertainty
			2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	
Helping with the cost of living and supporting businesses									
1	National Insurance: increase annual Primary Threshold and Lower Profits Limit to £12,570 from July 2022	Tax	0	-6,250	-5,960	-4,855	-4,330	-4,495	Medium
2	National Insurance: zero rate Class 2 payments for those with profits between £6,725 and £12,570	Tax	0	-65	-100	-100	-95	-95	
3	Income Tax: reduce basic rate from 20% to 19% from April 2024[3]	Tax	0	0	0	-5,335	-6,055	-5,975	Medium-Low
4	Fuel Duty: reduce main rates of petrol and diesel by 5p per litre, and other rates proportionately, for 12 months	Tax	-45	-2,385	0	0	0	0	Low
5	Energy bills support package	Spend	0	-9,050	+1,195	+1,195	+1,195	+1,195	Medium-High
6	Household Support Fund	Spend	0	-500	0	0	0	0	N/A
7	VAT: expanding the VAT relief for energy saving materials from April 2022	Tax	0	-45	-50	-60	-60	-65	Medium-High
8	Employment Allowance: increase from £4,000 to £5,000	Tax	0	-425	-420	-425	-435	-440	Medium-Low
9	Business Rates: bring forward implementation of green reliefs by one year	Tax	0	-40	*	0	0	0	Medium
Tackling fraud and supporting compliance									
10	HMRC: investment in compliance	Tax	+85	+455	+855	+815	+415	+530	Medium-High
11	DWP: investment in compliance	Spend	+5	+55	+290	+570	+580	+780	High
Previously announced policy decisions and mechanical changes to spending assumption									
12	Spending assumption: mechanical update in line with forecast	Spend	0	0	0	0	-15	+545	N/A
13	Student finance: changes to fee caps, loan terms and eligible courses - upfront accrual of impacts (not cash) over the lifetime of loans[4]	Spend	+2,285	+11,150	+3,805	+4,845	+6,095	+7,035	Medium
	Memo: impact on public sector net debt - net impact of changes on cash outlays and cash repayments over the forecast period		*0*	*+115*	*+385*	*+825*	*+1,005*	*+1,065*	
14	VAT: delay implementation of penalty reform by 9 months to January 2023	Tax	0	-5	-70	-45	-5	-5	Medium
15	Income Tax Self Assessment: January 2022 one month late filing and payment penalty waiver	Tax	-5	-10	-5	0	0	0	Medium
16	Tariff changes since Autumn Budget 2021	Tax	-15	-60	-55	-55	-55	-55	
17	Income Tax and National Insurance: one year extension to the exemption for employer-reimbursed coronavirus antigen tests	Tax	0	-10	0	0	0	0	Medium
18	Updating regulations for derivatives used to hedge foreign exchange risks in share transactions from April 2022	Tax	0	+10	+5	0	-5	-5	Medium-High
19	Special Administration Regime: Bulb Energy	Spend	0	-1,005	0	0	0	0	N/A
20	Statutory Sick Pay: extension to rebate scheme	Spend	-35	0	0	0	0	0	Medium-Low
21	Goodwin Case (case on discrimination in Teachers' Pension Scheme)	Spend	-60	-140	-75	-50	-50	-50	High
22	Student finance: eligibility for those relocating from Afghanistan under the Afghan Citizens Resettlement Scheme	Spend	0	*	*	*	-5	-5	Medium

23	West Yorkshire, South Yorkshire and North of Tyne borrowing powers	Spend	-10	-40	0	0	0	0	Medium
24	Operational measures to manage constraints within the Personal Independence Payment assessment system	Spend	-30	-55	0	0	0	0	Medium-Low
	Total policy decisions [5]		**+2,175**	**-8,415**	**-585**	**-3,500**	**-2,825**	**-1,105**	
	Memo: Total policy decisions excluding Higher Education reform package		***-110***	***-19,565***	***-4,390***	***-8,345***	***-8,920***	***-8,140***	
	o/w Total spending policy decisions		***-130***	***-10,735***	***+1,410***	***+1,715***	***+1,705***	***+2,465***	
	o/w Total tax policy decisions		***+20***	***-8,830***	***-5,800***	***-10,060***	***-10,625***	***-10,605***	

*Negligible.

[1] Costings reflect the OBR's latest economic and fiscal determinants.

[2] Many measures have both tax and spend impacts. Measures are identified as tax or spend on the basis of their largest impact.

[3] Non-dividend income

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

[5] Totals may not sum due to rounding.

Policy decisions not on the Treasury scorecard

A.12 Our forecasts include the effect of 10 policy decisions that the Treasury has chosen not to present on its scorecard (Table A.3).

Less than complete take-up of the £150 council tax rebate

A.13 The Government has allocated £2.9 billion of funding to pay for its £150 council tax rebate (Table A.1). This amount is based on the offer being universally taken up. Our forecast assumes that there will be less than complete take-up. As the Treasury has recorded the £2.9 billion of funding on its scorecard, we have recorded the difference as a non-scorecard costing. It reflects the fact that, while for direct debit payers the rebate is deducted automatically, for others it relies on them being contacted by their council and "*invited to make a claim*".[5] The overall level of take-up therefore depends on the proportion that pay via direct debits and the take-up among other council tax payers.

A.14 Based on a subset of councils for which information was available, we have assumed that two-thirds of council tax payers use direct debit. To determine take-up among the remainder, who through necessity or choice have not provided their local authority with their bank details, we have considered several factors that might influence take-up:

- **The value of the payment.** Evidence from take-up rates across a variety of benefits and other schemes would suggest that a one-off £150 payment might be consistent with a take-up rate of less than 50 per cent.[6]

- **The economic context.** The cost of living squeeze and the high degree of publicity around this measure suggest that a higher take-up rate is likely in this instance.

[5] Gov.uk, *Support for energy bills - the council tax rebate 2022-23: billing authority guidance*, 16 March 2022.

[6] See Figure 4.2 in OBR Briefing Paper No.6: *Policy costings and our forecast*, March 2014.

- **Past precedent.** While no directly equivalent measures provide a clear precedent to draw from, recent local authority administered Covid support measures led to significant amounts of allocated funds being returned to central government, for example by around 20 per cent for business support grants.

A.15 Weighing up all these factors, we assume 80 per cent take-up among those that do not use direct debit. This implies that around 7 per cent of the total £2.9 billion spending allocation will not be paid out to eligible households, amounting to £0.2 billion (see Table A.3).

A.16 The remaining non-scorecard measures are:

- The special administration regime for **Bulb Energy** is discussed above. The 2021-22 cost of the Government's intervention is shown in Table A.3, while the 2022-23 support is contained within the Treasury's scorecard (Table A.2).

- The **Supplementary Estimates for 2021-22** were laid in March 2022. The changes that are not on the Treasury scorecard include a reduction in capital DEL budgets of £9.6 billion and an increase in resource DEL budgets of £7.1 billion, the latter with an **associated underspend** of £0.7 billion. The impact of **other non-scorecard DEL spending** is shown in Table A.2.

- **Welsh rates of income tax: modelling adjustment, relating to the 1 per cent cut in the basic rate of income tax**. This is a modelling adjustment to accommodate the fact that the UK Government's decision to cut the basic rate of income tax by 1 per cent applies only to the UK portion of income tax rates, and not the Welsh rates of income tax.

A.17 There are several measures that are fiscally neutral:

- **BBC licence fee settlement.** On 17 January, the Government announced that the BBC licence fee will be frozen at £159 for two years, after which it will rise with CPI inflation. The licence fee generates around £3.75 billion a year in receipts, which is around 90 per cent of the BBC's total income. The freeze represents a reduction in income of around £250 million a year after 2022-23, which we expect to result in an equivalent reduction in BBC spending, making the measure fiscally neutral.

- **Devolution of cold weather payments.** From April 2022, the cold weather payment benefit will be fully devolved to Scotland. The devolution of this benefit is a close-to-neutral switch for our forecast as it replaces DWP AME with Scottish Government AME.

- **Additional council tax referendum principles.** The Greater London Authority (GLA) and several fire authorities have requested changes to the council tax referendum principles that were agreed at Spending Review 2021 to allow them to increase their council tax levels further (by 22.7 per cent for the GLA and by 3.5 per cent for the fire authorities). This increases council tax and the local authority spending that it finances equally.

- **Energy bills support: discretionary fund**. The £144 million local authority funding relating to the Government's energy support package is described above. Table A.3 shows an accounting impact in 2021-22, with central Government spending in RDEL being offset by lower local authority spending in AME. The overall net cost of the measure, the £144 million, is included in 2022-23 in Table A.2.

A.18 Two initiatives that do not appear on the scorecard and that are not factored into our forecasts relate to recent announcements about refugees from Ukraine. They are:

- The **Homes for Ukraine scheme**, which was launched on 14 March and allows UK sponsors to host a named Ukrainian or Ukrainian family in their home. The Government is offering a payment of £350 a month for up to 12 months to hosts that provide accommodation. The payments are expected to be delivered via local authorities, who will receive DEL funding from either the reserve or via reprioritisation.

- The **Ukrainian Families Scheme**, which was launched on 4 March, and allows Ukrainians and immediate family members to join a UK-based family member. They are to be granted leave to remain for three years, will be eligible for benefits, and will be able to seek and take up employment. By 18 March, 8,600 visas had been issued.

It is too early to make a reasonable estimate on the numbers of refugees that are likely to arrive into the UK and enter either scheme, or therefore the resulting fiscal impact. For now, we note these as fiscal risks and will return to them in our next forecast.

A.19 On 28 January the Government published draft legislation for a new temporary **'public interest business protection tax'** that aims to deter the owners of energy suppliers from realising the value of energy derivative contracts and then letting their businesses fail and enter special measures. The tax will be levied at 75 per cent of the adjusted value of assets that are realised in this way, subject to conditions. We have assumed that the deterrent effect of the tax will prevent such activity taking place, so it will not raise any revenue.

Table A.3: Costings for policy decisions not on the Treasury scorecard and OBR assessment of the uncertainty of costings

		£ million						
	Head	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	Uncertainty
Council tax rebate: non-take-up	Spend	0	195	0	0	0	0	Medium-High
Bulb Energy bailout	Spend	-1160	0	0	0	0	0	N/A
Supplementary Estimates	Spend	2490	0	0	0	0	0	N/A
Assumed underspend	Spend	720	0	0	0	0	-10	N/A
Other DEL spending	Spend	0	-60	-40	20	20	15	N/A
Income tax: Welsh adjustment	Tax	0	0	0	-120	-125	-130	Medium-Low
Fiscally neutral measures								
BBC licence fee: freeze	Tax	0	-35	-235	-255	-255	-260	Medium-Low
	Spend	0	35	235	255	255	260	
Council tax: referendum principles	Tax	0	75	80	80	85	85	Medium-Low
	Spend	0	-75	-80	-80	-85	-85	
Energy bills support: discretionary fund	RDEL	-145	0	0	0	0	0	Medium-High
	AME	145	0	0	0	0	0	
Cold weather payments: devolution	Spend	neg	neg	neg	neg	neg	neg	Medium
Direct effect of Government decisions		**2,055**	**135**	**-35**	**-100**	**-105**	**-125**	

Note: This table uses the convention that a negative sign implies a loss to the Exchequer (and is therefore an increase in PSNB).

Scottish Government policy decisions

A.20 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 transaction tax (LBTT). Since October the Scottish Government has announced the following measures that have been reflected in this forecast:[7]

- **Scottish higher-rate income tax threshold freeze.** The Scottish Government has announced that the **higher-rate threshold for Scottish non-savings, non-dividend income tax will be frozen** in cash terms at £43,662 in 2022-23 instead of rising in line with CPI inflation. It is then assumed to increase with CPI inflation from 2023-24 onwards. The measure is expected to raise an average of £140 million a year.

- **Scottish non-domestic rates.** The Scottish Government has set the **poundage rate for 2022-23 at 49.8p**. This increases the tax rate on a property's rateable value to the level that applied in 2019-20, reversing the rate cut that was in place during 2020-21 and 2021-22. It therefore represents a rate cut relative to the poundage having increased with CPI inflation. Rates are assumed to rise in line with CPI inflation thereafter. The measure is expected to cost around £40 million a year over the forecast period. The Scottish Government has also introduced a **50 per cent relief for the retail, hospitality and leisure sectors, to apply for the first quarter of 2022-23**, to succeed the reliefs in place for these sectors during 2021-22. We expect this to cost £55 million in

[7] For more information see our *Devolved taxes and spending forecasts*, published alongside this *EFO* and available on our website. The effects detailed here need to be considered alongside the fiscal consequences set out in the Treasury's fiscal framework agreements with the Scottish and Welsh Governments respectively, which set out the methodology by which block grant adjustments are made.

2022-23. The cost of these measures will be centrally funded by the Scottish Government, and so we have assumed that there will not be an impact on local authority spending as a result.

- **Two new Scottish social security measures.** First, the **Scottish child payment is being doubled, from £10 to £20 a week**, from April 2022. Inflation-linked uprating has been brought forward from April 2023 to December 2022 and eligibility is being extended from children aged under 6 to those aged under 16 by the end of 2022. Second, from April the cold weather payment scheme will be devolved and replaced by a '**low income winter heating assistance**' scheme. The new benefit provides an annual £50 payment to all eligible low-income households, irrespective of the weather. Scottish social security spending is contained within our wider forecast of Scottish Government AME, so in effect this is treated as a reallocation of spending within that overall AME amount. As such, it has no effect on our forecast for UK-wide public sector net borrowing. We discuss the devolution of cold weather payments above.

Table A.4: Costings for Scottish Government policy decisions

		£ million					
	Head	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Scottish Government policy decisions							
Income tax: higher-rate threshold freeze	Receipts	0	-135	-130	-135	-140	-145
Non-domestic rates: 2022-23 poundage	Receipts	0	40	45	40	40	45
Non-domestic rates: 50 per cent RHL relief	Receipts	0	55	0	0	0	0
Implications for Scottish Government spending		0	-95	-45	-40	-40	-45
Direct effect of Scottish Government decisions		**0**	**-135**	**-130**	**-135**	**-140**	**-145**

Note: This table uses the convention that a positive sign implies an increase in borrowing. These costings are included in our pre-measures forecast, with the post-measures forecast only accounting for policy decisions by the UK Government.

Policy costings and uncertainty

A.21 In order to be transparent about the potential risks to our forecasts, we assign each certified costing a subjective uncertainty rating, shown in Tables A.2 and A.3. These range from 'low' to 'very high'. In order to determine the ratings, we assess 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 costing as particularly uncertain, we see risks lying to both sides of what we nonetheless judge to be a reasonable and central estimate.

A.22 Using this approach, we have judged two measures to have 'high' or 'very high' uncertainty around the central costing. Together, these represent 6 per cent of the scorecard measures by number, or 8 per cent of the tax and AME measures we have certified (as we do not certify the cost of DEL spending measures). They represent 6 per cent of certified measures by absolute value.[8]

[8] The absolute value refers to the magnitude of the costing irrespective of whether it is an Exchequer cost or a gain.

Personal tax measures

A.23 The Chancellor has announced two significant cuts to personal taxation in this Spring Statement. He has:

- Fulfilled a Conservative Party manifesto commitment from 2019 by **raising the NICs primary threshold and lower profits limit to £12,570 from July 2022**, aligning it with the income tax personal allowance. This alignment is maintained across the forecast period, so that the threshold is frozen in cash terms until 2025-26, from when it rises with CPI inflation. Almost 30 million taxpayers stand to benefit, at an average gain of £290 a year. The measure costs £6.3 billion in 2022-23 but the cost declines to £4.6 billion in 2026-27 due to the thresholds being frozen in cash terms, whereas they were due to rise with CPI inflation each year in the pre-measures baseline.

- **Reduced the basic rate of income tax from 20 per cent to 19 per cent, from April 2024**. This costs the Exchequer an average of £5.8 billion a year between 2024-25 and 2026-27. This will benefit around 30 million taxpayers that gain an average of around £170 a year. Scottish income taxpayers will only gain from the reduction in the income tax due on savings income since decisions about rates on non-savings, non-dividend income in Scotland have been fully devolved to the Scottish Government.[9]

A.24 These changes amount to a personal tax giveaway that rises to £10.6 billion in 2026-27. This reverses just over a quarter (28 per cent) of the aggregate yield from the personal tax rises that were announced during 2021. Table A.5 shows that our latest estimate for the combined yield in 2026-27 from the income tax threshold freezes and the introduction of the health and social care levy is £37.2 billion, giving a net tax increase after the measures announced in the Spring Statement of £26.6 billion (0.9 per cent of GDP) in that year.

Table A.5: Personal tax policy costings

		£ billion				
		Forecast				
	Announcement	2022-23	2023-24	2024-25	2025-26	2026-27
Income tax: threshold freezes	March 2021	-2.9	-10.4	-15.5	-18.0	-18.8
Health and social care levy[1]	October 2021	-17.2	-17.2	-17.4	-17.8	-18.4
NICs: increase in thresholds	March 2022	6.3	6.1	5.0	4.4	4.6
Income tax: 1p basic rate cut	March 2022	0.0	0.0	5.3	6.1	6.0
Total		**-13.8**	**-21.6**	**-22.6**	**-25.4**	**-26.6**

Note: This table uses the convention that a positive sign implies an increase in borrowing.
[1] In 2022-23, the health and social care levy measure is an increase in NICs rates, before the levy is introduced.

A.25 The two costings are relatively low uncertainty, since the they use high-quality HMRC administrative data and established models, with only marginal behavioural responses.

[9] The measure does have an impact in Wales, which has a different system of devolved income tax. It reduces the UK Government-specific portion of income tax in Wales from 10 to 9 per cent, leaving the Welsh portion unchanged. The overall basic rate in Wales is therefore reduced in line with the basic rate in England and Northern Ireland.

Box A.1: The fiscal impact of student loans reforms

On 24 February 2022 the Government announced a raft of changes to the working of the higher education student loans system in England.[a] These 'Plan 2' loans represent the majority of student loan outlays in the UK (86 per cent in 2021-22). The Government also announced consultations into further potential changes to: focus financing on "*high class provision*"; reintroduce student number controls; and implement minimum entry requirements. Together these changes form part of the Government's response to the 2019 Augar Review.[b]

We will analyse the long-run impacts of these changes in our *Fiscal sustainability and risks report* this summer. In this box we summarise the main reforms, explain their impacts on the complex accounting for student loans, and show the overall impact on our latest five-year forecast.

The changes affect the system in four distinct ways:

- **Freezing maximum tuition fees** until academic year 2024-25 before reverting to rising by RPIX inflation.[c] By reducing higher education funding via the loan system this saves the Government money upfront and by reducing the amount owed by students it also reduces repayments in the longer term. But in the medium term, repayments are little affected since they are determined by graduates' incomes rather than how much they owe.
- **Reducing interest rates** for new borrowers to equal RPI inflation (rather than up to RPI plus 3 per cent) with effect from 2023-24. This reduces the rate at which student debt rises due to accruing interest. The effect in the medium term is limited though as the 'prevailing market rate cap' is assumed to be in place for many borrowers up to 2024-25.
- **Lower repayment thresholds.** Thresholds for *existing* borrowers are kept at £27,295 to 2024-25 (the impact on our forecast includes an announcement on 2022-23 levels on 28 January) and then rise by RPI. For *new* borrowers, thresholds are reduced to £25,000 in 2023-24 and then held constant until 2026-27, and then also rise by RPI. These changes increase cash receipts modestly in the medium term, but this builds steadily over time ensuring much larger repayments over the life of the loans.
- **Extending repayment terms to 40 years** for new borrowers. This has no cash effect in the medium term, but by extending the repayment period from 30 to 40 years it increases lifetime repayments from borrowers that would have had loan balances written off after 30 years under the terms that will still apply to existing borrowers. In effect, affected borrowers will now pay a higher rate of income tax for their entire working lives.

Overall, reducing fees and interest rates reduces the total liabilities accrued by students. But by lowering repayment thresholds and extending the repayment term by a decade, borrowers in aggregate will pay a much larger share of the accrued liabilities reducing the share ultimately written off and borne by government. In terms of our fiscal forecast, this reduces the share of English loan outlays recorded as expenditure from 61 per cent in 2021-22 to 34 per cent in 2026-27. In terms of the 'RAB charge' recorded in the Department for Education's accounts in respect of future write-offs, this reduces it from 57 to 37 per cent in 2026-27.[d]

The recording of student loans in the public finances is complex. Total outlays are divided so that the share that is expected to be repaid (including both principal and interest) is recorded as a loan and the stock of these loans accrues interest, whereas the portion that will not be repaid is recorded as expenditure at the time the loan is made. As borrowers' lifetime repayments increase and the total owed decreases, the transfer portion on new loans is lower, which reduces public sector net borrowing (PSNB) by amounts that rise to £6.6 billion in 2026-27 (Table A). The value to the Government of existing loans also improves (by £10.6 billion, thanks largely to lowering the repayment threshold). This is reflected in the public finances as a capital transfer received in 2021-22 and 2022-23 as the respective legislation is enacted. The stock of student financing counted as loan assets, rather than expenditure, therefore increases by £32 billion (1.1 per cent of GDP) by 2026-27 due to these changes. This larger stock of outlays treated as loans outweighs lower interest rates accruing on them to mean interest receipts are also higher.

Table A also sets out the changes to the cash flows that reduce public sector net debt (PSND) due to lower outlays (from lower fees) and higher repayments (from lower repayment thresholds). PSND is reduced by modest amounts that total £3.7 billion by 2026-27. It also shows the reductions to PSNB from lower transfers to students and higher interest receipts, which are dominated by the implications of lower repayment thresholds. The PSNB effects total £35.1 billion over the same period – a much larger impact than that on debt, which reflects the fact that these represent the upfront accrual of substantial effects on distant future cash flows. The accruals adjustments show how the difference between PSNB and PSND is bridged in the public finances. These policies therefore affect all the flow and stock aggregates recorded in Chapter 3.

Table A: Fiscal impacts of policy changes to the student finance system

	£ billion					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Annual change in PSND (a)	**0.0**	**-0.1**	**-0.4**	**-0.8**	**-1.1**	**-1.2**
of which:						
Cash outlays (b)	0.0	0.0	-0.1	-0.3	-0.5	-0.5
Cash repayments (c)	0.0	-0.1	-0.3	-0.5	-0.6	-0.8
PSNB (d)	**-2.3**	**-10.8**	**-3.7**	**-5.0**	**-6.2**	**-7.1**
of which:						
Transfers from new lending (e)	-0.3	-1.4	-2.6	-4.2	-5.6	-6.6
Transfers from existing lending (f)	-1.9	-8.6	0.0	0.0	0.0	0.0
Interest receipts (g)	-0.1	-0.8	-1.1	-0.8	-0.6	-0.6
Accruals adjustments (a-d)	**2.3**	**10.7**	**3.3**	**4.2**	**5.1**	**5.9**
of which:						
Outlays (b-e-f)	2.2	10.0	2.5	3.9	5.2	6.1
Repayments (c)	0.0	-0.1	-0.3	-0.5	-0.6	-0.8
Interest receipts (-g)	0.1	0.8	1.1	0.8	0.6	0.6

[a] Department for Education, *Higher education policy statement & reform consultation*, February 2022.

[b] *Independent panel report to the review of post-18 education and funding*, May 2019.

[c] Since 2017-18 the Government's default indexation assumption for the maximum tuition fee is that it should rise with RPIX inflation each year. However, fees have actually been frozen in every year since. This is therefore just the latest in many freezes.

[d] RAB charge changes are for the impact of the main reform package on English Plan 2 loans.

DWP fraud and error

A.26 The Spring Statement policy package includes a £960 million cumulative increase in DWP's DEL settlement to support new compliance interventions to counter fraud and error (F&E) and to boost recoveries through debt enforcement. Collectively the measures are forecast to generate £3.2 billion of savings over five years, thereby reducing our forecast for overall welfare spending by an average of 0.5 per cent a year between 2022-23 and 2026-27.

A.27 The fiscal consequences of compliance measures tend to be highly uncertain, although these largely consist of recruiting more staff to address F&E, so are not subject to the very high uncertainty associated with measures that seek to alter non-compliant behaviours. A key uncertainty in this instance relates to the baseline level of F&E prior to these interventions – in particular, whether and how the spike in recorded F&E during the pandemic would have subsided in their absence.

A.28 Table A.6 shows that the overall rate of F&E in universal credit (UC) rose from 9.4 per cent of spending in 2019-20 to 14.5 per cent in 2020-21, driving a £3.8 billion increase in net overpayments. Results from DWP's administrative F&E survey suggest that this sharp rise was entirely driven by very high overpayment rates for new UC claimants that joined the caseload following the onset of the pandemic. The rate of overpayments for the pre-Covid caseload in 2020-21 was actually unchanged at 9.4 per cent, whereas overpayments to the Covid caseload are estimated to have been a remarkable 25.6 per cent. This is close to HMRC's estimated tax gap for small businesses that pay self-assessed income tax – one of the highest tax gaps across the entire tax system. It implies that nearly a fifth of the £19.8 billion rise in total UC expenditure in 2020-21 was from increased F&E.

A.29 The unusually high F&E rates in the Covid caseload were mainly focused in self-employed UC claims, which were affected by several easements in the UC system, while also being affected by the scale and timing of self-employment income support scheme (SEISS) payments and other fiscal support measures. Rates of F&E were also high in respect of capital rules that withdraw entitlement for those with savings in excess of £16,000. The rise in F&E within UC led to an overall increase in DWP F&E from 2.4 per cent of total spending in 2019-20 to 3.9 per cent in 2020-21. We have assumed that UC F&E rates would have fallen halfway back to pre-pandemic levels by 2026-27 in the absence of new measures, as the economy normalises – in particular for lower-income self-employed workers.

A.30 The DEL funding will mainly be used to recruit significant numbers of additional staff by December 2024, which generates uncertainty around delivery timelines, including how quickly staff can be recruited, trained and become fully productive. Overall, we assign this costing a 'high' uncertainty rating.

Table A.6: Universal credit fraud and error estimates

	£ billion (per cent)	
	2019-20	2020-21
Total UC expenditure	18.4	38.2
Total overpayments	1.7 (9.4)	5.5 (14.5)
of which:		
Pre-Covid caseload		2.4 (9.4)
Covid caseload		3.1 (25.6)

Tariffs on selected Russian and Belarusian imports

A.31 The Government has announced its intention to impose a punitive 35 percentage point increase in the tariff rate for certain imported goods from Russia and Belarus, following the Russian invasion of Ukraine. The measure, which is contained within *'Tariff changes since Autumn Budget 2021'* on the Treasury's scorecard, will affect imports that include raw materials, heavy machinery, luxury goods, art and antiques, consumer products, and beverages. There are two main sources of uncertainty:

- **The tax base**, or the existing value of affected imports, based on grossed up 2021-22 outturn data, is around £1.2 billion. However, it seems very likely that the tax base for the measure will be significantly lower, with individuals and companies voluntarily shifting away from Russian and Belarusian products. The costing assumes this significantly lowers the pre-measure tax base.
- **The behavioural response** to the tariff increase itself. The price increases are significant, for example around £2.50 (around 16 per cent) for a typical bottle of Russian vodka. Based on standard elasticities this would imply a large drop in demand. The speed and degree of response will partly depend on the current set of import contracts and the ability of importers to shift quickly to alternative suppliers, which will be subject to the existing UK Global Tariff rates.

The costing for this measure was, understandably, submitted too late for us to scrutinise and certify as reasonable and central, so we will return to it in our next forecast.

Goodwin pensions ruling

A.32 The Goodwin legal case successfully challenged that the disparities in rights to survivors' benefits in the Teachers' Pension Scheme (TPS) were discriminatory.[10] While this measure primarily affects the TPS and NHS pension schemes, it also requires all relevant public service pension schemes to make corrective remediation payments. There is significant uncertainty around the data underpinning the costing, which relates only to the TPS, though this is the scheme that is most advanced in delivering remediation payments. The lack of data necessitates a relatively simple top-down modelling approach that relies on several hard-to-verify assumptions, including the scheme-level projection of remediation payments, which relies solely on the limited experience of the TPS. The tax consequences are also subject to some uncertainty. We assign this costing a 'high' uncertainty rating.

[10] Gov.uk, *Mrs Linda Goodwin v The Secretary of State for Education: 1308506/2019 - Judgment by Consent*, 30 June 2020.

Update on previous measures

A.33 We cannot review and re-cost all previous measures at each fiscal event (the volume being too great), but we do look at any where the original (or revised) costings are under- or over-performing, and at costings that were identified as particularly uncertain.

The cost of pandemic-related support measures

Overall cost and breakdown

A.34 The cumulative cost of the Government's pandemic-related support measures has been revised down to £310.7 billion from the £316.6 billion we estimated in October. There is no straightforward definition of a pandemic-related support measure, so we decided to draw a line at the March 2021 Budget, such that new policies announced since then have not been added to our running total. This means revisions to the estimated cost of this response since March 2021 largely reflect updates to estimates of the cost of previously announced interventions.[11] Table A.7 shows the main changes since October, which include:

- A £6.7 billion downward revision to the expected cost of **government-guaranteed loan schemes**, with £5.9 billion of that reduction being recorded in 2021-22 but largely relating to loans issued in 2020-21. The loans are guaranteed by government, so any guarantees called by lenders generate a cost to the Exchequer. In this forecast we have revised down expected loss rates, due to the improved economic outlook and fewer fraudulently claimed loans. These changes are described in Chapter 3.[12]

- The net cost of the **coronavirus job retention scheme (CJRS)** has been revised up by £0.5 billion. Around a third of the increase is due to the latest outturn data on the AME cost of furlough payments, while two-thirds reflects a lower estimate of the amount of tax that is due on those payments. The gross AME cost of the CJRS is £69.3 billion.[13]

- Net costs relating to the fourth and fifth round of grants for the **self-employment income support scheme (SEISS)** have been revised up £0.3 billion from October. This is almost entirely due to revising down the tax that will be collected on those grants, largely reflecting the most recent outturn data from self-assessed income tax returns. The gross cost across all five grants is £28.1 billion.[14]

- The **VAT deferral and new payment scheme (NPS)** is expected to cost £0.2 billion less than we estimated in October. The main impact of this measure, which provides

[11] We do, however, include extensions of previously announced measures that are deemed to provide pandemic-related rescue support. There were two such examples in our October 2021 *EFO*, and a further two in this *EFO*.
[12] Costs associated with the Recovery Loan Scheme (RLS) do not feed into these totals but are included in the overall estimate of loan guarantee schemes in Chapter 3. The RLS has not been grouped with the direct response to the pandemic but rather, as its name implies, as part of the recovery package that followed the rescue phase of the fiscal policy response.
[13] Payments to furloughed employees are subject to tax (mainly PAYE income tax and NICs), so the net cost includes the receipts that are recouped from CJRS grants. This net fiscal cost presentation is therefore different to the gross AME costs presented in Chapter 3. Although the scheme has ended, HMRC expects a very small number of late claims, so the total is close to but not yet completely final.
[14] SEISS grants are taxable, so the net cost includes the subsequent recovery via income tax and NICs. Since this is paid via self-assessment its impact will tend to be a year later than the grant it relates to. This net fiscal cost presentation differs from the gross AME costs reported in Chapter 3.

taxpayers who defer their VAT payments with the option to pay the deferred liability in instalments, is on the timing of cash receipts. It only affects accrued receipts to the extent that some of the deferred payments ultimately go unpaid. The change in the cost is due to more deferred VAT being repaid than previously expected, which in turn reduces the amount going into debt and the amount that eventually goes unpaid.

- The cost of **the extension to the stamp duty holiday on residential property transactions up to £500,000 from March 2021 to 30 June 2021** has been revised up £0.1 billion, reflecting the latest data.

- The cost of **other measures** has increased by £0.2 billion, which is almost entirely due to an increase in the cost of the **homeworking allowance**. This tax relief existed prior to the pandemic, so it is only the cost of the April 2020 increase in the flat weekly rate, from £4 to £6, that we include here. The measure was announced just prior to the pandemic and was initially estimated to cost around £2 million a year. In our November 2020 forecast we increased that to an average cost of around £20 million a year between 2020-21 and 2025-26, and we have now revised it up again. It is now estimated to have cost around £85 million in 2020-21 and an average of £40 million a year between 2021-22 and 2026-27. The rise in cost is driven by a huge increase in the number of claimants – from 20,000 in 2019-20 to 3.2 million in 2020-21. While we assume numbers will decline from this peak, we expect them to remain materially higher than pre-pandemic levels in the medium term.

Table A.7: Recostings of pandemic-related support measures

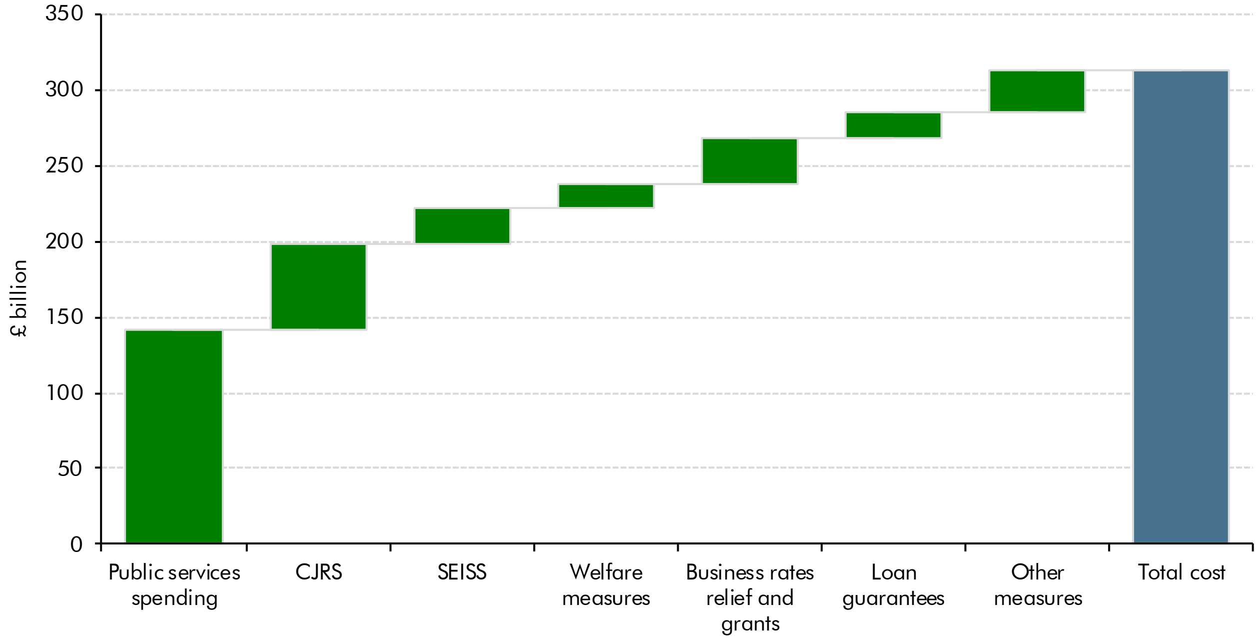
	£ billion						
	Forecast						
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Total cost of pandemic-related support measures, successive forecasts							
November 2020 (£338.4bn total)	1.8	280.0	52.7	1.9	0.7	0.7	0.5
March 2021 (£346.2bn total)	1.8	249.9	93.3	-0.1	0.8	0.4	-0.1
October 2021 (£316.6bn total)	1.7	228.9	83.8	1.0	0.9	0.4	-0.2
March 2022 (£310.7bn total)	**1.7**	**229.4**	**77.9**	**0.8**	**0.7**	**0.4**	**-0.2**
of which:							
Public services (£141.9bn total)	0.0	95.2	47.0	-0.1	-0.3	0.0	0.0
CJRS (£54bn total)	1.7	45.7	6.6	0.0	0.0	0.0	0.0
Business rates/ grants (£31.3bn total)	0.0	22.3	7.3	1.6	0.0	0.0	0.0
SEISS (£24bn total)	0.0	18.7	6.0	-0.8	0.0	0.0	0.0
Loan guarantees (£16.5bn total)	0.0	20.9	-4.4	0.0	0.0	0.0	0.0
Welfare measures (£15.6bn total)	0.0	7.9	4.7	1.4	0.8	0.5	0.3
Other measures (£27.4bn total)	0.0	18.6	10.5	-1.3	0.2	-0.1	-0.5
Difference to October	**0.0**	**0.5**	**-5.9**	**-0.2**	**-0.2**	**0.0**	**0.0**
of which:							
Loan guarantees	0.0	0.0	-5.9	-0.5	-0.2	0.0	0.0
CJRS	0.0	0.6	-0.1	0.0	0.0	0.0	0.0
SEISS	0.0	0.0	0.1	0.2	0.0	0.0	0.0
VAT: new payment scheme	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
SDLT holiday	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
Other measures	0.0	0.1	0.0	0.0	0.0	0.0	0.0

Note: This table uses the convention that a positive sign implies an increase in borrowing.
Totals for previous forecasts have been restated since our October *EFO* to correct an omission.
Totals include a small amount that relates to costs in 2026-27.

A.35 Chart A.1 shows that, of the £310.7 billion total cost:

- almost half (£141.9 billion) relates to **spending on public services**, largely health;
- around a quarter (£78.0 billion) is the net cost of **the CJRS and SEISS**;
- around 15 per cent (£47.8 billion) is due to **the three largest business support schemes** – business rates relief, business grants and the government-guaranteed loan schemes;
- around 5 per cent (£15.6 billion) relates to **the benefits system**; and
- 9 per cent (£27.5 billion) comes from the **remaining support measures**, including the temporary 5 per cent VAT rate for badly affected sectors, the residential property stamp duty holiday, and the Chancellor's 'eat out to help out' scheme.

Chart A.1: The cost of pandemic-support measures



Source: OBR

Fraud, error and misuse of pandemic-related schemes

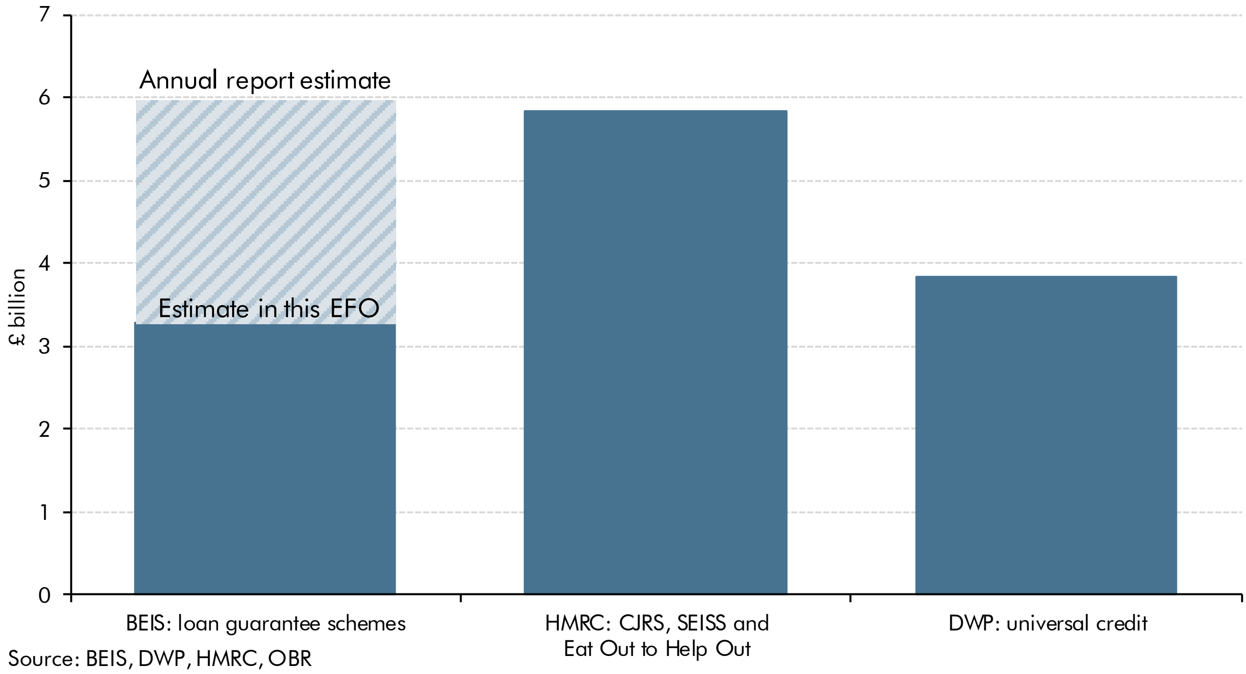
A.36 The largest pandemic-related support measures evolved from policy development to delivery at great pace. They were designed to deliver support rapidly, in the knowledge that this would limit the extent to which checks could be put in place to prevent misuse but would ensure support reached people and businesses in need as quickly as possible. To the extent that it was possible, we aimed to factor this in when scrutinising costings of these measures. Misuse or fraud can affect their cost in several ways – some loans will have been taken up with no intention of repaying, raising the cost of calls on guarantees; some CJRS and SEISS grants will have been claimed fraudulently, providing support to those who did not need it; and new claims will have been made for universal credit that did not meet eligibility criteria. To the extent that the sums involved can subsequently be recovered, the eventual cost of measures would be less than the initial cost recorded as payments were made.

A.37 The Government recognised at the time that its pandemic-related support schemes were designed primarily to provide rapid financial assistance to affected businesses and individuals, and that this urgency generated risks around the potential for fraud and error.[15] Initial audited estimates of the cost of non-compliance are now available and have begun to be scrutinised.[16] The 2020-21 annual reports from DWP, HMRC and BEIS report combined expected fraud and error losses of £15.7 billion (see Chart A.2).[17] This is a considerable sum, amounting to around 5 per cent of the total cost of pandemic-related support set out

[15] For example, when announcing Bounce Back Loans in April 2020, the Chancellor stated that, *"Today, we're announcing a new loan scheme. A simple, quick, easy solution for those in need of smaller loans. […] There will be no forward-looking tests of business viability; no complex eligibility criteria; just a simple, quick, standard form for businesses to fill in."*
[16] See, for example, Public Accounts Committee, *HMRC Performance in 20220-21*, February 2022.
[17] See fraud estimates for CJRS, SEISS and Eat Out To Help Out in *HMRC annual report and accounts: 2020 to 2021*, November 2021; estimates for universal credit fraud in *DWP annual report and accounts 2020 to 2021*, July 2021; and fraud relating to loan guarantees in *BEIS annual report and accounts 2020 to 2021*, November 2021.

above.[18] But it is a sum that should be considered against the potential economic costs from delivering support more slowly in order to target it more rigorously. Those potential costs cannot be quantified with any precision but, given the rapid rebound in activity and low levels of unemployment facilitated by these support measures, it is not unreasonable to think that they could have been far greater.

Chart A.2: Estimated fraud costs in Covid-support schemes



Source: BEIS, DWP, HMRC, OBR

Policy delays

A.38 To certify costings as central, we need to estimate when – as well as by how much – measures will affect the public finances. As set out in previous *EFOs*, many policy measures do not meet the timetable factored into the original costings – even where we have required greater contingency margins before certifying them. This continues to pose a risk to our forecast. The one policy delay that we have been notified about since October is **VAT penalties reform**. This March 2021 Budget measure introduced a new regime for late payment and late submission penalties and was due to start in April 2021. It has now been delayed by nine months to January 2023 following delays related to HMRC's 'making tax digital' programme.

Update on other measures

Public service pensions remedy ('McCloud remedy')

A.39 In February 2021 the Government published its response to the '*Public service pension schemes: changes to the transitional arrangements to the 2015 schemes*' consultation, also known as the 'McCloud remedy'. This set out how the Government would address the age

[18] It is not particularly out of line with fraud and error rates on non-pandemic HMRC and DWP welfare support schemes.

discrimination associated with the transitional protection that was offered to scheme members close to retirement, but not to younger scheme members.

A.40 We included initial estimates of the impacts of this in our October forecast, but noted that the tax element – which relates to changes in accrual rates between legacy and reformed schemes, and which affects, among other things, annual allowance (AA) charges[19] – was highly uncertain. Due to the retrospective change to pension accrual under the remedy, there will be some members that are due refunds from HMRC on previous charges, and others that might incur new or higher tax charges.

A.41 In October, we included a simple top-down judgement on a single aspect of the tax costing, namely the potential level of AA refunds due to those members that might be automatically rolled back into legacy schemes. We estimated this would cost £150 million a year in 2023-24 and 2024-25. We have now updated the costing to include the income tax payable when members opt for different benefits at retirement, using more granular modelling from HMRC. This has reduced the cost in 2023-24 to just £10 million and switched the tax effect to a yield of £40 million a year between 2024-25 and 2026-27. This reflects an increase in income tax payable for members who receive higher benefits at retirement, as well as a small downward revision to AA refunds (based on HMRC advice that amended liabilities that are more than four years old cannot be repaid (or collected) through the tax system).

A.42 The Government has committed to "*provide tax-free compensation*" and that members "*will not bear the cost of [additional AA charges]*" in the year of retirement if choosing reformed scheme rather than legacy scheme benefits. We have also been told that the Government will consult on the required tax legislation this summer, before laying the necessary tax regulations in September. For that reason, we have not adjusted the costing to incorporate tax that would otherwise be due in respect of either of these elements, though if that timetable is not met then we will revisit this issue as necessary in future forecasts.

Pensions flexibility

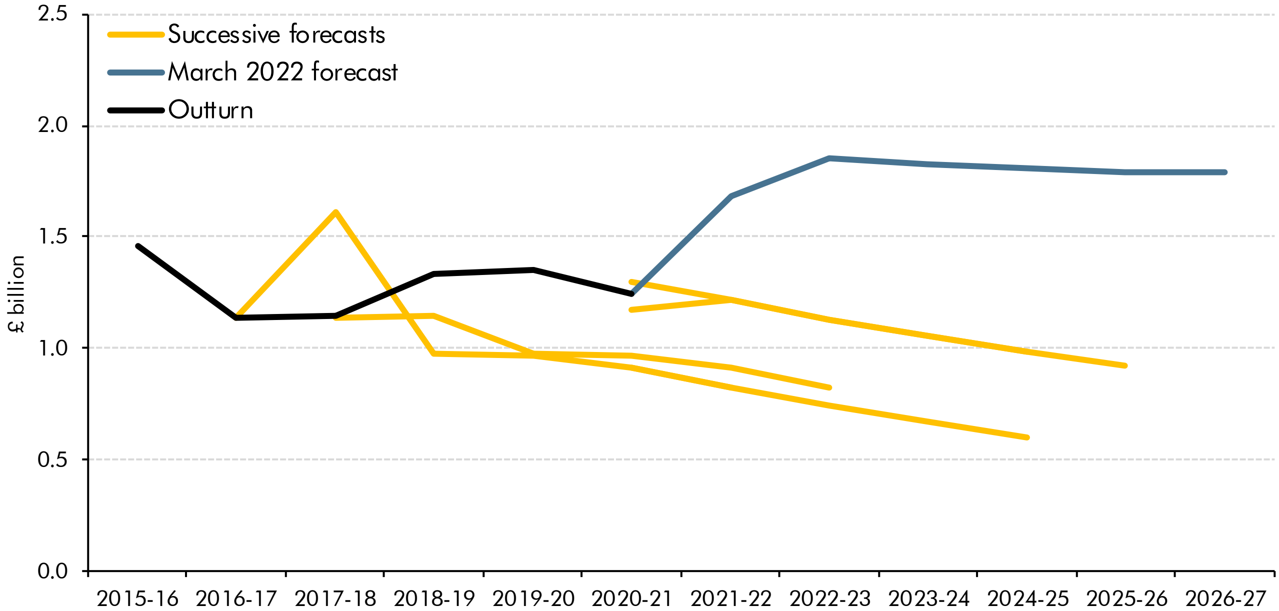
A.43 This Budget 2014 measure, also known as 'pensions freedoms', gave individuals with defined contribution pensions the flexibility to withdraw their funds from age 55, subject to tax paid at their marginal rate, rather than the 55 per cent charge that was in place prior to that. Chart A.3 shows that our forecasts have consistently underestimated the appetite to make use of this flexibility, with receipts outturn data repeatedly surprising on the upside.

A.44 Outturn data from the first three quarters of 2021-22 show that withdrawals are once again on course to outstrip expectations and are up almost a fifth on the same period in 2020-21. As discussed in Box 2.4, the recent strength is likely to be linked to a pandemic-driven increase in the number of over-50s bringing forward their retirement plans and facilitating that with earlier access to their pension pots. This has led us to revise up our forecast of tax paid on the flexible drawing down of pensions funds significantly. We now expect receipts in 2021-22 to be £1.7 billion, up £0.4 billion on 2020-21 and £0.5 billion (39 per cent) higher than we expected in October. We have also revised up receipts from 2022-23

[19] As well as changes in accrual rates, the tax element also relates to contribution rates and pension entitlement.

onwards by an average of £0.8 billion a year, as we assume that people will make use of earlier withdrawals to manage the rise in the cost of living this year, and that the steady-state level of withdrawals will be higher than we had previously assumed.

Chart A.3: Successive forecasts of tax receipts from the use of pensions flexibility



Source: HMRC, OBR

Home Office fees

A.45 The receipts from three Home Office fees have increased to £3.1 billion in 2021-22, more than double the amount raised in 2017-18, when the third of the fees was introduced. This increase is due to some fee rises and to higher-than-expected demand, partially driven by their coverage extending to EEA nationals following the end of the Brexit transition period on 31 December 2020. The three are:

- **Visa fees**, which are charges for UK visa applications that were first introduced in 2003 as a £155 fee for an indefinite leave to remain application. The fees have since been increased several times. For example the current cost of the fee for indefinite leave to remain is £2,389, 59 per cent higher than it was in 2016 (£1,500). Receipts from visa fees have increased by 29 per cent since 2017-18 and 87 per cent since 2015-16. These are expected to generate £1.5 billion of revenue in 2021-22, and £1.2 billion a year over the remainder of the forecast, in line with our migration forecast.

- The **immigration skills charge**, which was introduced in April 2017 and is levied on companies and public sector bodies that employ skilled migrant workers from outside the UK. The level of the charge depends on both the size of the sponsoring organisation and the length of the worker's contract. For the first year, small or charitable sponsors will pay £364, while medium and large sponsors pay £1,000. The original costing expected £0.1 billion of receipts in 2021-22, whereas we are now forecasting three times that amount. In its first five years we expect the charge to have raised a total of £0.9 billion, 71 per cent higher than the original costing.

- The **immigration health surcharge**, which was introduced in 2015 and is payable upfront by individuals who come to live in the UK for more than six months. It was originally set as an annual payment of £200, which was increased to £400 in 2018 and then £624 at Budget 2020. During the pandemic the surcharge was relaxed for health care workers. Receipts this year have far outstripped the combined amounts expected in those costings. Indeed, the £1.3 billion forecast for 2021-22 is more than triple the revenue in 2019-20 (£0.4 billion). We are forecasting receipts from the surcharge to average £1.0 billion a year over the forecast period. We estimate that just over a quarter of the revenue is from public sector employers.[20]

Other measures

A.46 Revisions to several other previous measures are worth noting:

- **The UK Infrastructure Bank** (UKIB) was launched last June to help deliver the National Infrastructure Strategy. It will provide loans, equity financing and guarantees to projects that contribute to the Government's 'net zero' and 'levelling-up' objectives. In this forecast we have revised down our forecast of UKIB outlays. Compared to the March 2021 costing, outlays are down from £0.7 billion to £0.1 billion in 2021-22, from £1.3 billion to £0.3 billion in 2022-23, and from £1.6 billion to £0.6 billion in 2023-24. Cumulatively between 2021-22 and 2025-26 outlays have been revised down 45 per cent from £6.6 billion to £3.6 billion. Much of this relates to the investment pipeline for UKIB activity that was assumed in the costing proving overly optimistic. The new profile builds up more slowly and reaches the levels assumed in the original costing by the final two years of the forecast. New ventures often take longer than expected to deliver, and we attempted to mitigate against such optimism bias when certifying this costing, but clearly did not go far enough.

- **Reforms to the funding of adult social care.** In our October *EFO* we set out an initial estimate of the long-term cost of the Government's September 2021 package of reforms to the funding of adult social care. This introduced an £86,000 cap to limit the amount individuals in England will be required to spend on their personal care over their lifetime, effective from October 2023. Any care costs incurred beyond the cap will be paid for by the local authority. On 17 November 2021, the Government announced that means-tested local authority support will not count towards the cap. This effectively increases both the amount of private contributions that will be required before the cap is reached, and the time period those contributions will need to cover. The Government estimates that this amendment will reduce the cost of the reforms by £0.9 billion a year from 2027-28 onwards.[21] Under this system, individuals are still expected to pay for 'daily living costs' (for items unrelated to care, such as food, rent

[20] The Home Office collects the surcharge on behalf of the Department of Health and Social Care.
[21] This is beyond the horizon of this forecast. We will consider the longer-term effects of these reforms in this summer's *Fiscal sustainability and risks report*.

and utility bills) themselves. The Government has now confirmed the level of the daily living cost, which will not contribute towards the cap, will be £200 a week.[22]

- **Universal credit (UC): reduce the taper rate from 63p to 55p and increase work allowances by £500 a year**. This measure, announced in October, reduces the rate at which UC payments are withdrawn, by 8p for every pound of a claimant's post-tax income earned above the work allowances. We estimated a £2.2 billion cost in 2022-23, rising to £3.0 billion by 2026-27. This has been revised down by £0.3 billion a year from 2022-23 onwards, reflecting lower take-up and fewer initial inflows than we expected. The estimated increase in the caseload to date is around 50,000, and we have lowered the overall expected increase from 350,000 a year to 140,000.

- **Capital allowances: two-year 130 per cent super deduction**. The enhanced super-deduction rates apply to unlimited new expenditure on qualifying plant and machinery within the two-year period from 1 April 2021 to 31 March 2023. The rates are several times more generous than the 18 and 6 per cent capital allowance rates that would otherwise have applied to expenditure on main- and special-rate assets respectively. This generates an Exchequer cost between 2020-21 and 2023-24, as investment decisions are brought forward and their costs expensed over a single year, rather than spanning several years. In this forecast we have revised down the cost over this four-year period by £0.4 billion (1.5 per cent). The largest change is due to us revising down the extent to which the measure boosts business investment, from 10 per cent to 5 per cent (see Chapter 2). This lowers the four-year cost by £1.6 billion, though this is largely offset by an additional £1.2 billion from forecast changes relating to modelling improvements, including around the expenditure on cars. The measure raises yield in later years as the effect of bringing forward investment unwinds once the super-deduction is withdrawn. We now expect the three-year yield between 2024-25 and 2026-27 to be £0.1 billion (3.1 per cent) lower than we previously estimated.

- **Extended loss carry back**. This Spring Budget 2021 measure extends the period that trading losses from companies, partnerships and self-employed traders can be carried back and offset against income and corporation tax (CT) liabilities, subject to an annual £2 million cap.[23] It applies (for CT payers) for accounting periods ending between 1 April 2020 and 31 March 2022, enabling losses generated in those years to be used to offset liabilities in 2017-18 and 2018-19, in addition to 2019-20. Since the measure does not affect underlying liabilities, its impact is on the timing rather than the total amount of receipts, with an Exchequer cost in earlier years that is recouped in later years, as the impact unwinds. Outturn data suggest the stock of losses assumed in the original costing was an overestimate and, perhaps, that take-up of the measure has also been lower than expected. This has led us to revise down the cost between 2021-22 and 2022-23 (in cash terms) by £0.5 billion (60 per cent) and revise down the yield between 2023-24 and 2026-27 by a similar amount.

[22] This is in 2021-22 prices and is a notional amount. Additional local authority support remains available for those unable to meet their daily living costs.
[23] Only the corporation tax element, which comprises the vast majority of the costing, has been updated.

Policy risks

A.47 Parliament requires that our forecasts only reflect current government policy. As such, when the Government 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. The full list of risks to this forecast and changes from previous updates is available on our website. Here we summarise risks that have changed materially since our October forecast and those that are new.

A.48 Risks that have crystallised and are now reflected in our forecast include:

- The **Conservative Party's 2019 manifesto commitment to increase the NICs primary threshold** and lower profits limit to £9,500 by April 2020 with an "*ultimate ambition*" to raise it to £12,500. The increase to £9,500 from April 2020 was implemented in the March 2020 Budget. In this Spring Statement, the threshold has been aligned with the income tax personal allowance (currently £12,570) from July 2022 onwards.

- **The 'Augar' review of post-18 education funding** was launched in February 2018 and reported in May 2019. Among its recommendations were some with significant fiscal implications such as reducing the student fee cap to £7,500 a year and freezing it until 2022-23, and changes to repayment terms. The Government has now announced several reforms in response to the review that are discussed in Box A.1.

- The **border operating model** sets out how and when the Government will implement and manage its customs and border control obligations since exiting the EU. Full customs controls have been in place since 1 January 2022, whereby traders must submit customs declarations for all goods exported from and imported into the UK (excluding those from Ireland). Safety and security declarations on importing certain products of animal and plant origin that were due to be introduced in October 2021 will be phased in between 1 July and 1 November 2022 under a revised timetable, to give agri-food producers time to adjust to the new system.

- In July 2021, the Government published its response to what has become known as the **'Goodwin case'**. As discussed above, we have reflected an initial estimate of the cost of this remediation in our latest forecast.

A.49 Risks that have evolved or that are new since October include:

- The Government's 21 July 2021 Command Paper stated its intention to renegotiate several aspects of the existing **Northern Ireland Protocol to the UK-EU Withdrawal Agreement**. In October, the European Commission responded with a new offer of bespoke arrangements in the areas of "*food, plant and animal health, customs, medicines and engagement with Northern Irish stakeholders.*" The Government is in intensive discussions with the EU, with the aim of changing the Protocol. It aims to reach a positive outcome through negotiations, but there remains significant uncertainty around the longer-term operation of the Protocol. The Government has not ruled out unilateral measures via the Protocol's Article 16 safeguard mechanism.

- The **UK-New Zealand trade deal**, signed on 28 February, removes tariffs on all UK goods exported to New Zealand and all imports to the UK from New Zealand, subject to meeting 'rules of origin' requirements (though some agricultural products will "*not be fully liberalised*"). As the deal is unlikely to be ratified in Parliament until 2023, we have not yet included any impacts in our forecast, though the fiscal impacts are likely to be modest and economic impacts negligible in our five-year forecast horizon. New Zealand accounted for less than 0.2 per cent of total UK imports in 2019 and 2020. The Government's Impact Assessment of the deal estimates that it could raise the level of real GDP in 2035 by between 0.023 and 0.034 per cent.[24]

- **EU-UK legal case on customs fraud.** In March 2022 the European Court of Justice (ECJ) ruled that "*the United Kingdom has failed to fulfil its obligations under EU law by failing to apply effective customs control measures or to enter in the accounts the correct amounts of customs duties*".[25] This case relates to the undervaluation on import of textiles and footwear from China between November 2011 and October 2017 (as first noted in our March 2019 *EFO*). The Court's decision records that the ECJ continues to have jurisdiction in this case since legal proceedings started before the end of the transition period set out in the EU-UK withdrawal agreement. The fiscal consequence of the court ruling is contingent on the European Commission's recalculation of customs duties owed. The ECJ rejected the initial estimate of €2.7 billion and requested the Commission to account for the findings of the Court in their final estimate. We will include the impact of this once the final cost has been agreed.

- In addition, the **Chancellor has set out his intention to cut taxes on business investment**. In his Mais lecture on 24 February 2022, he said, "*as I develop a business tax strategy for the years ahead, it seems likely to me that a priority will be to cut taxes on business investment*" and also that "*despite the UK's highly competitive headline corporation tax rates, the overall tax treatment provided for capital investment is much less generous than the OECD average… we need our future tax policy to be targeted and strategic*". He has not yet specified how these will be achieved, so they have not been reflected in our forecasts. We will include the fiscal impacts of these policy aspirations when they translate into specific policy measures.

A.50 The more inflationary environment creates broader risks in specific policy areas. Despite the fiscal support for household budgets delivered in the Spring Statement, pressure for more could build again if the energy price cap in October rises sharply. Similarly, having frozen fuel duty in cash terms for more than a decade, the Government's plans for an RPI+5p super-indexation of fuel duty next year are ambitious. Inflation also presents challenges in the welfare system, where benefits will fall in real terms in 2022-23, and has also eroded the real value of the departmental budgets set in cash terms in October's Spending Review.

[24] Department for International Trade, *Impact Assessment of the Free Trade Agreement between the United Kingdom and Northern Ireland and New Zealand*, February 2022.
[25] Court of Justice of the European Union, *Press release no 42/22*, March 2022.