

Office for
**Budget
Responsibility**

Economic and fiscal outlook

8 July 2015

**Robert Chote
Chairman**

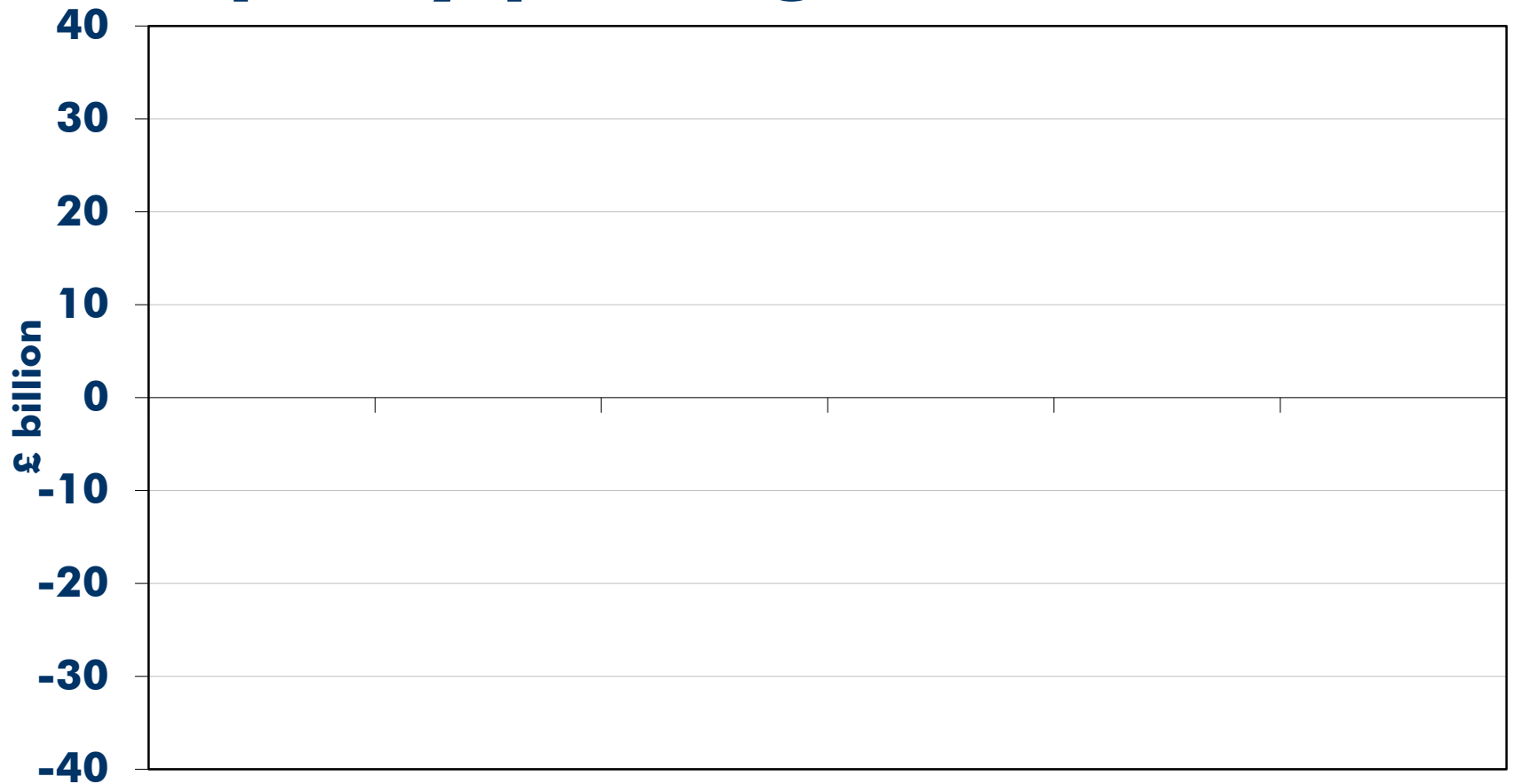
Coverage and process

- **Five year forecasts, plus assessment of targets**
- **Independent BRC responsible for conclusions**
- **Helped by OBR staff and other officials**
- **Final pre-scorecard forecast on 25 June**
- **Met with the Chancellor on 29 June**

Outline

- **Relatively small changes to underlying forecasts**
- **Big giveaways**
 - Higher public services spending
 - Tax cuts
- **Paid for by**
 - Tax increases
 - Welfare and other spending cuts
 - Indirect effects of the policy measures
- **Increases borrowing for the next three years and surpluses in the subsequent two**

The policy package: overview



2015-16 2016-17 2017-18 2018-19 2019-20 2020-21

■ Change in RDEL

■ Gross tax increases

■ Other spending cuts

■ Extra borrowing

■ Gross tax cuts

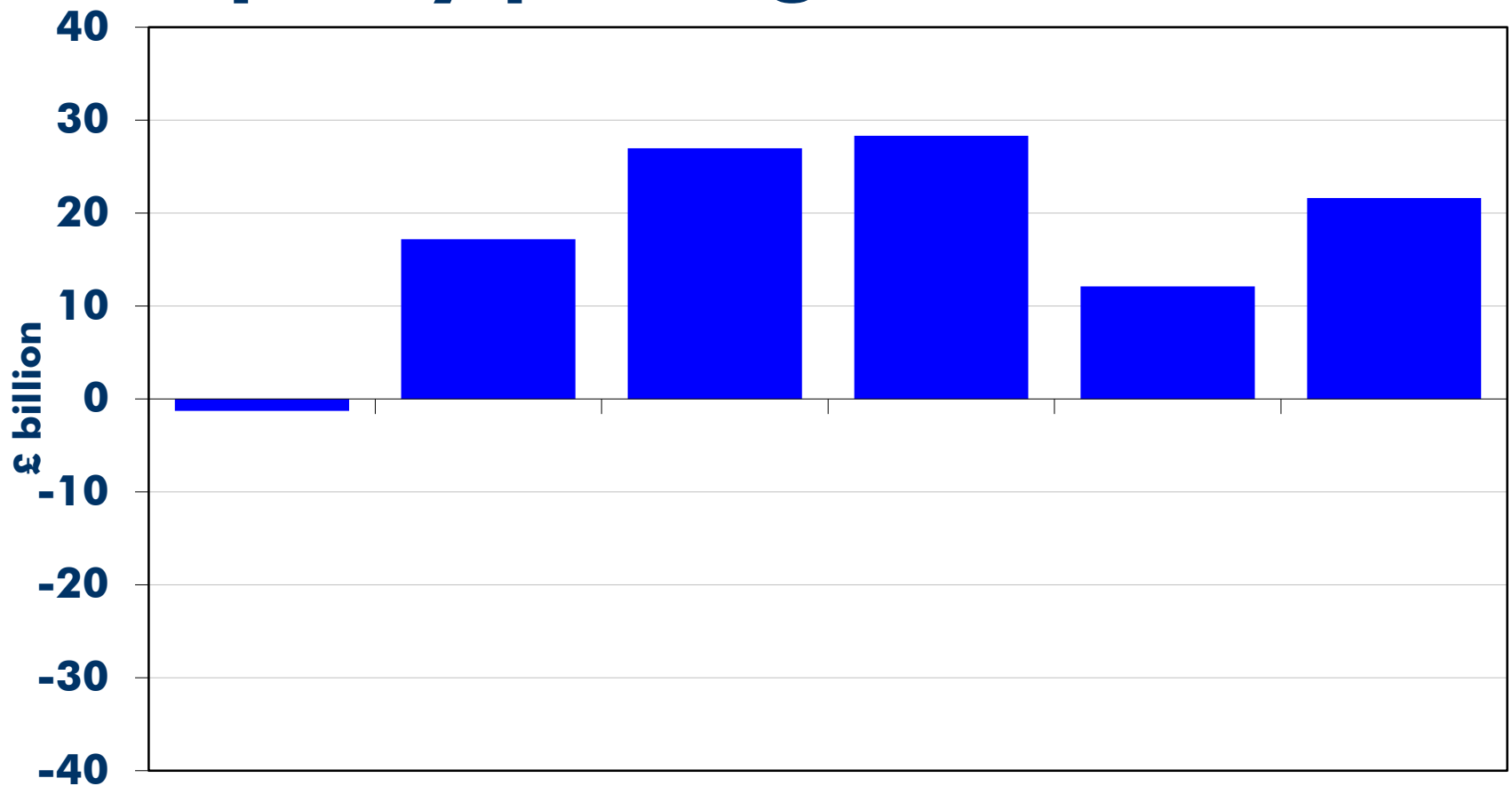
■ Net welfare cuts

■ Indirect effects

■ Lower borrowing

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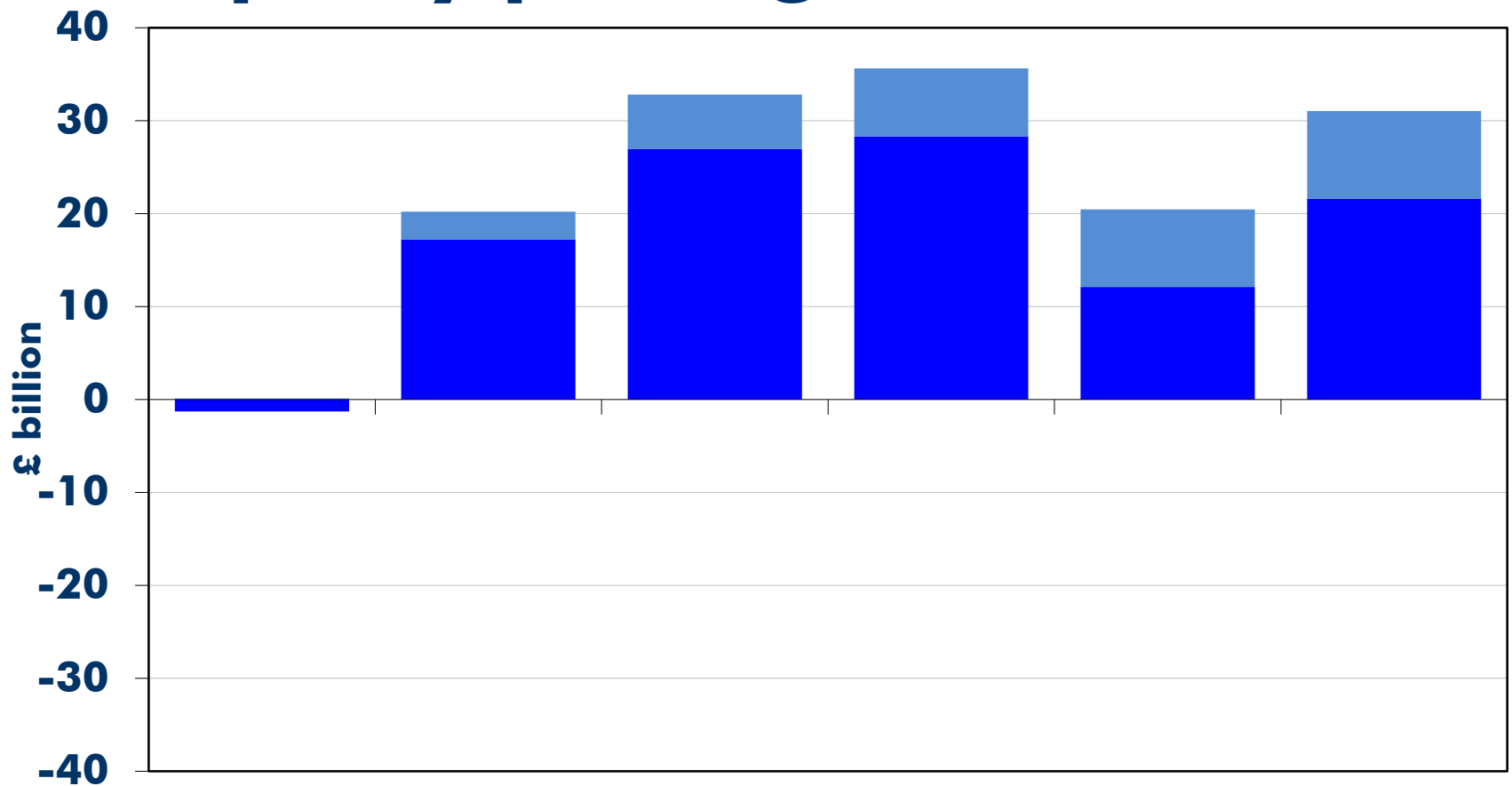
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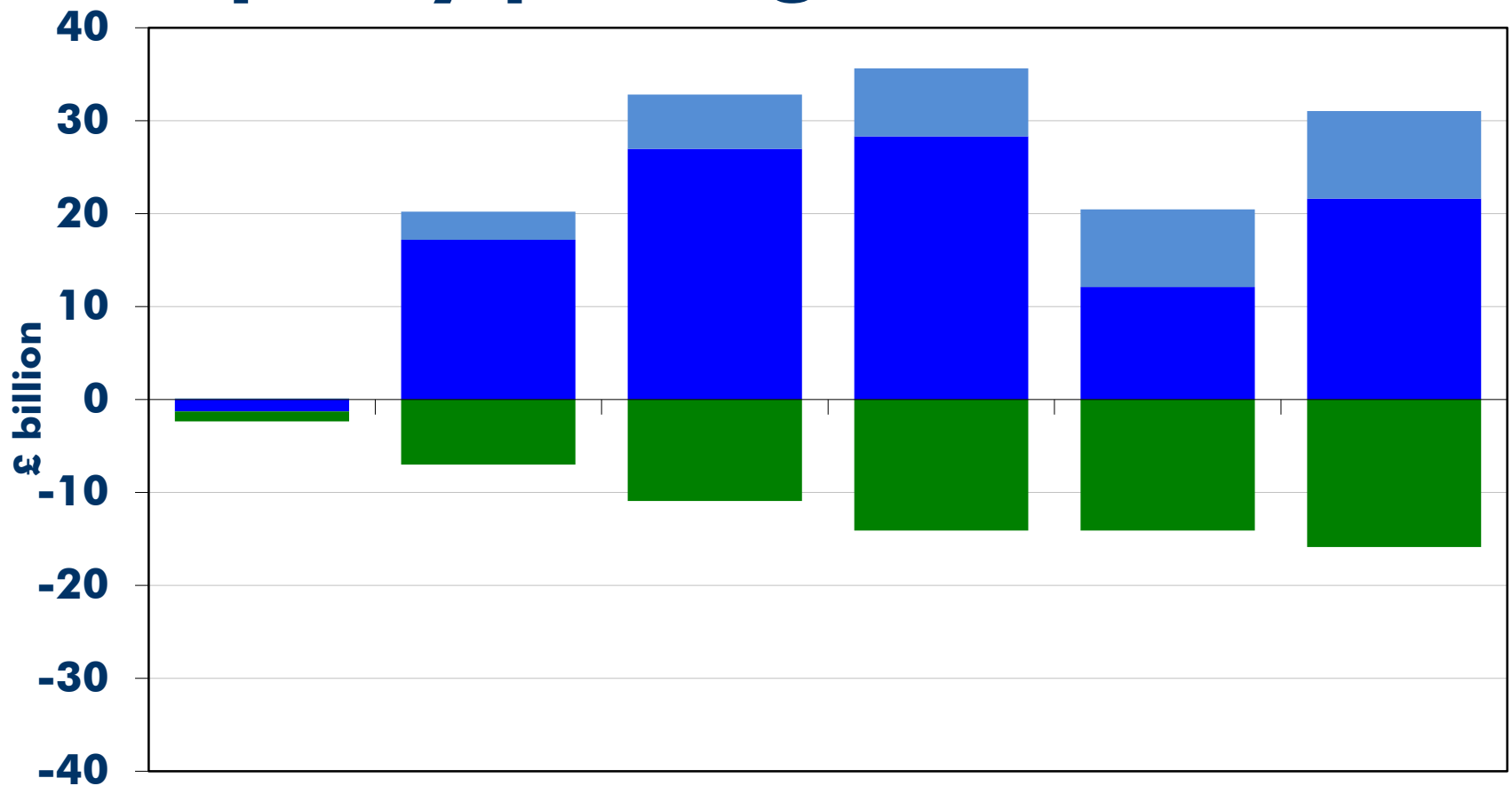
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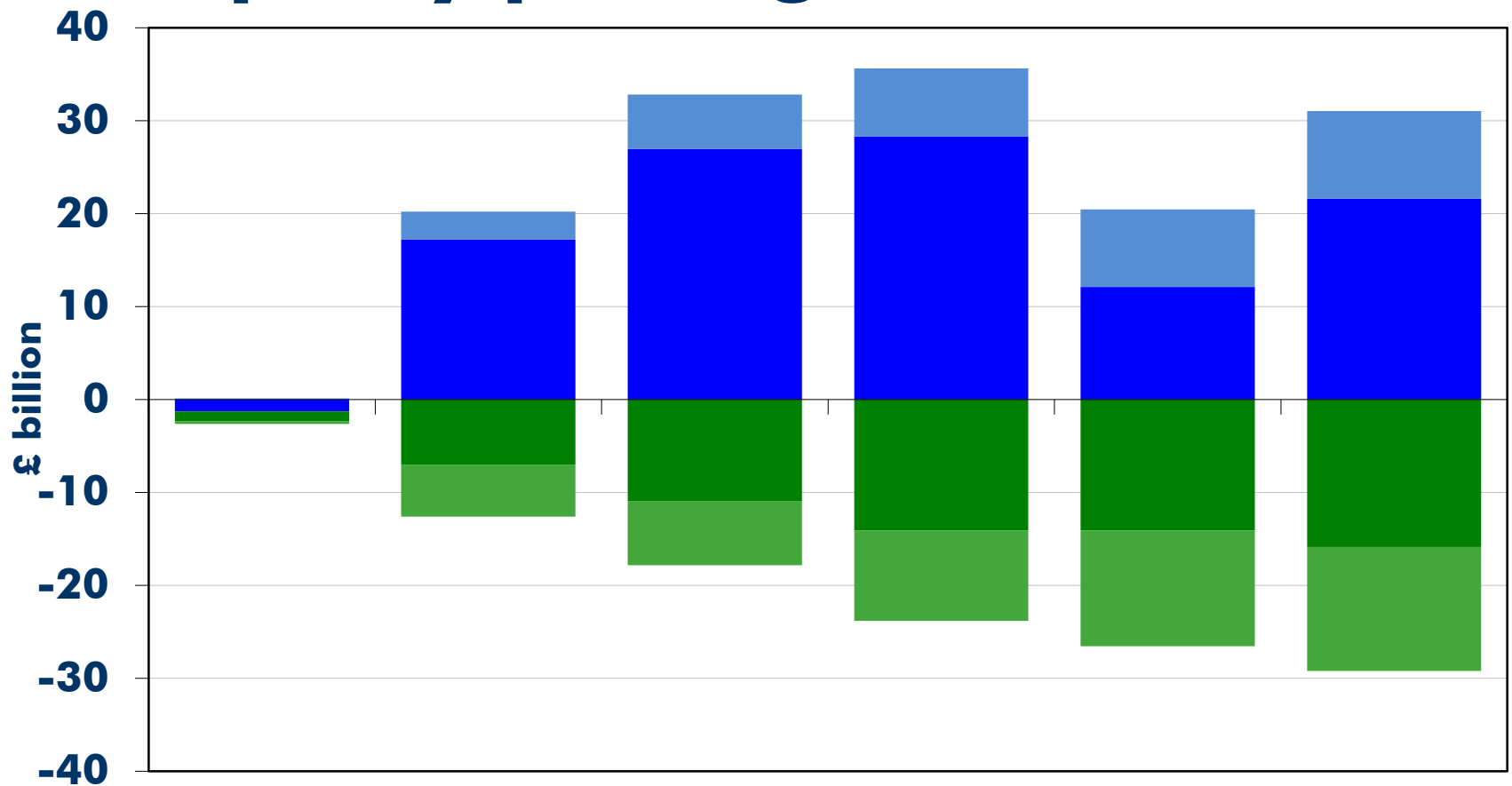
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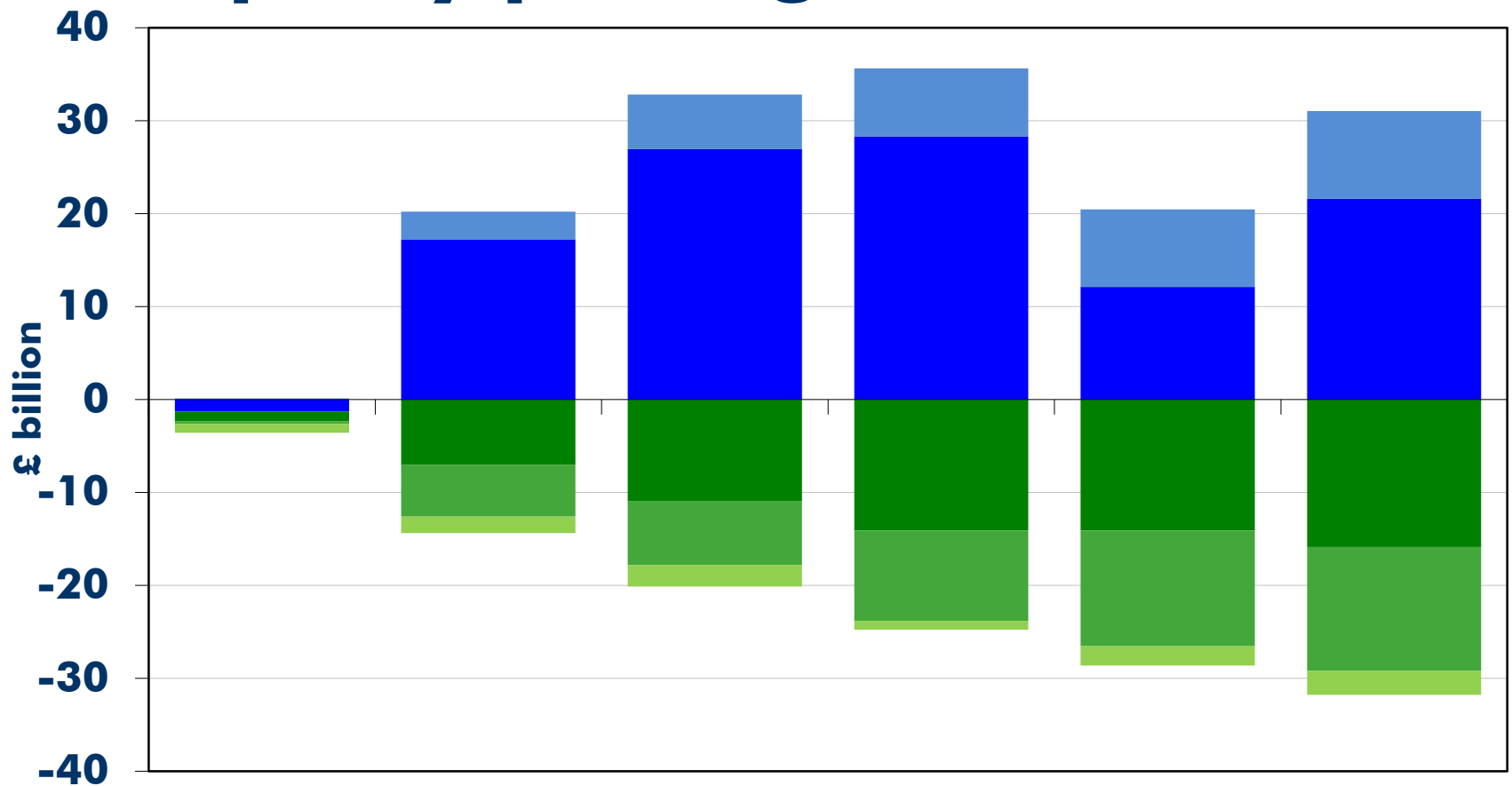
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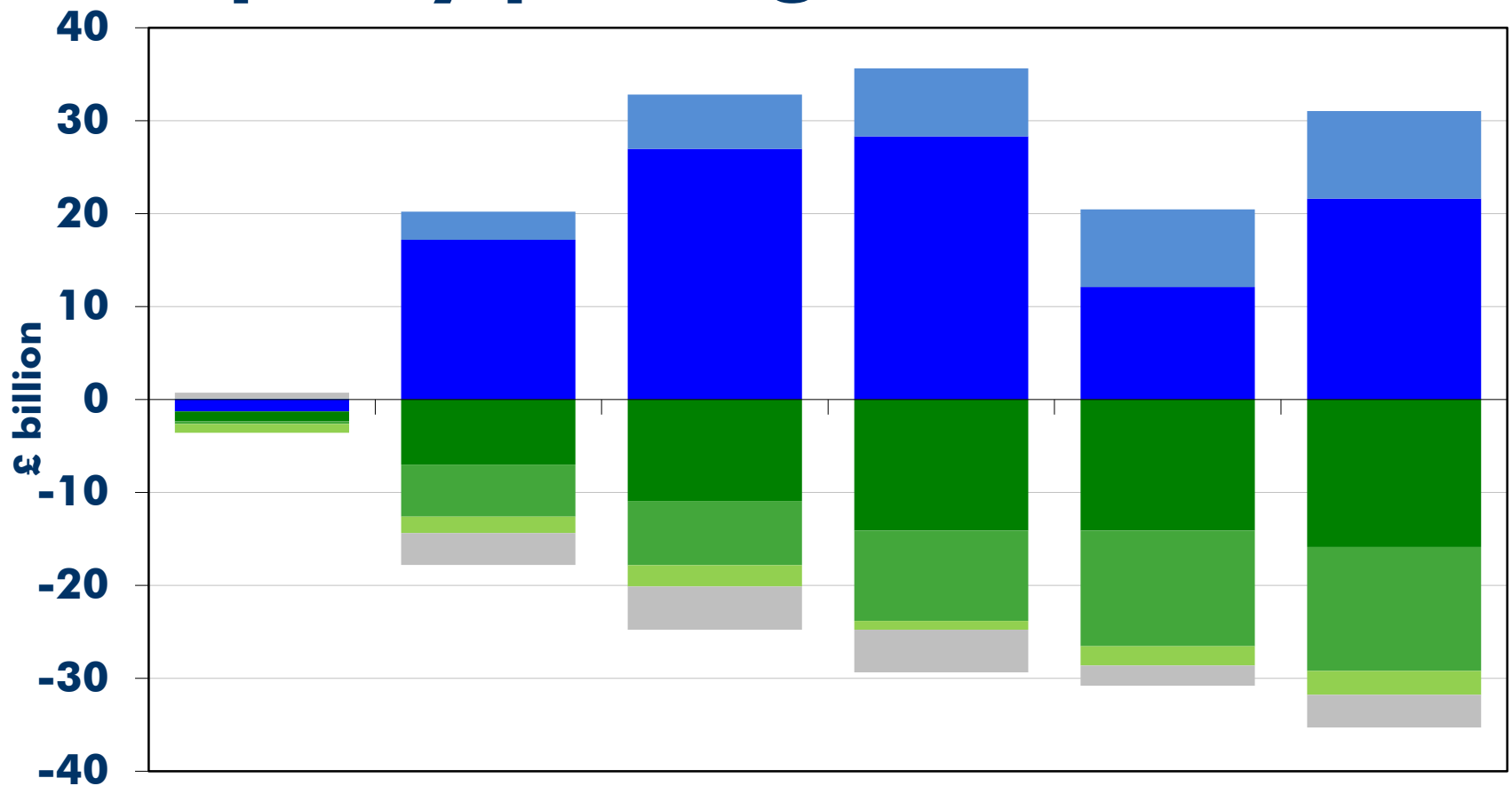
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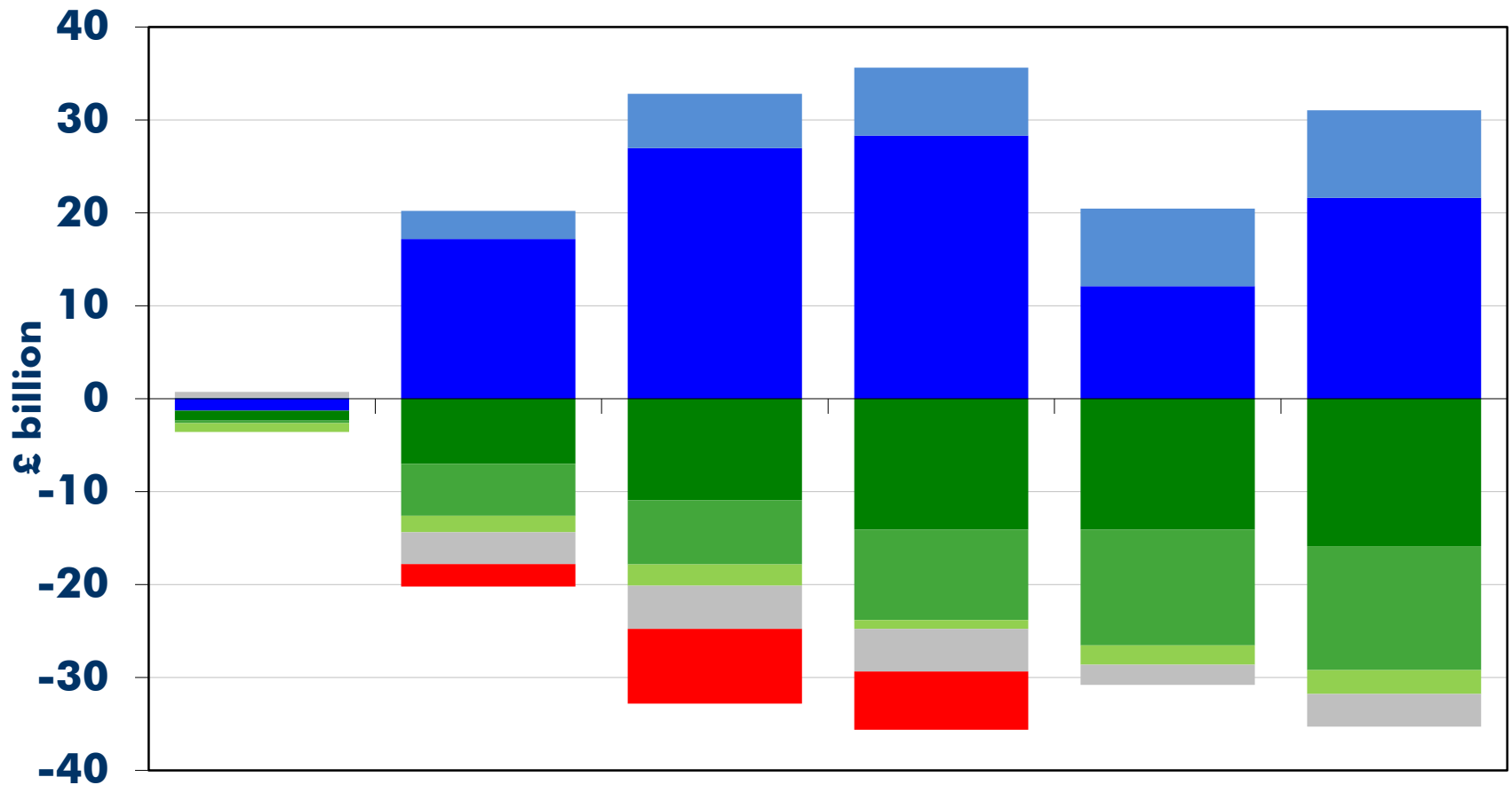
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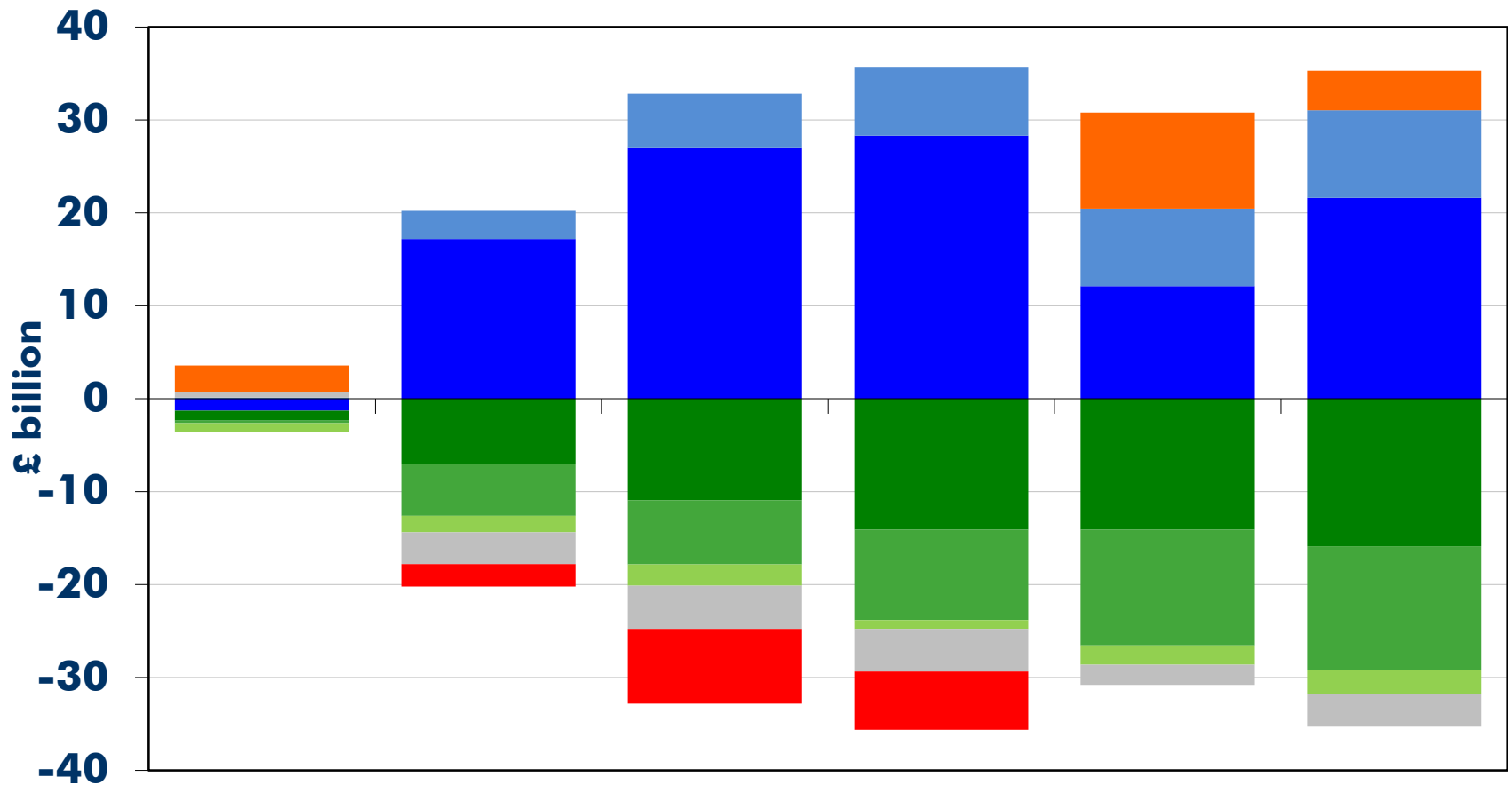
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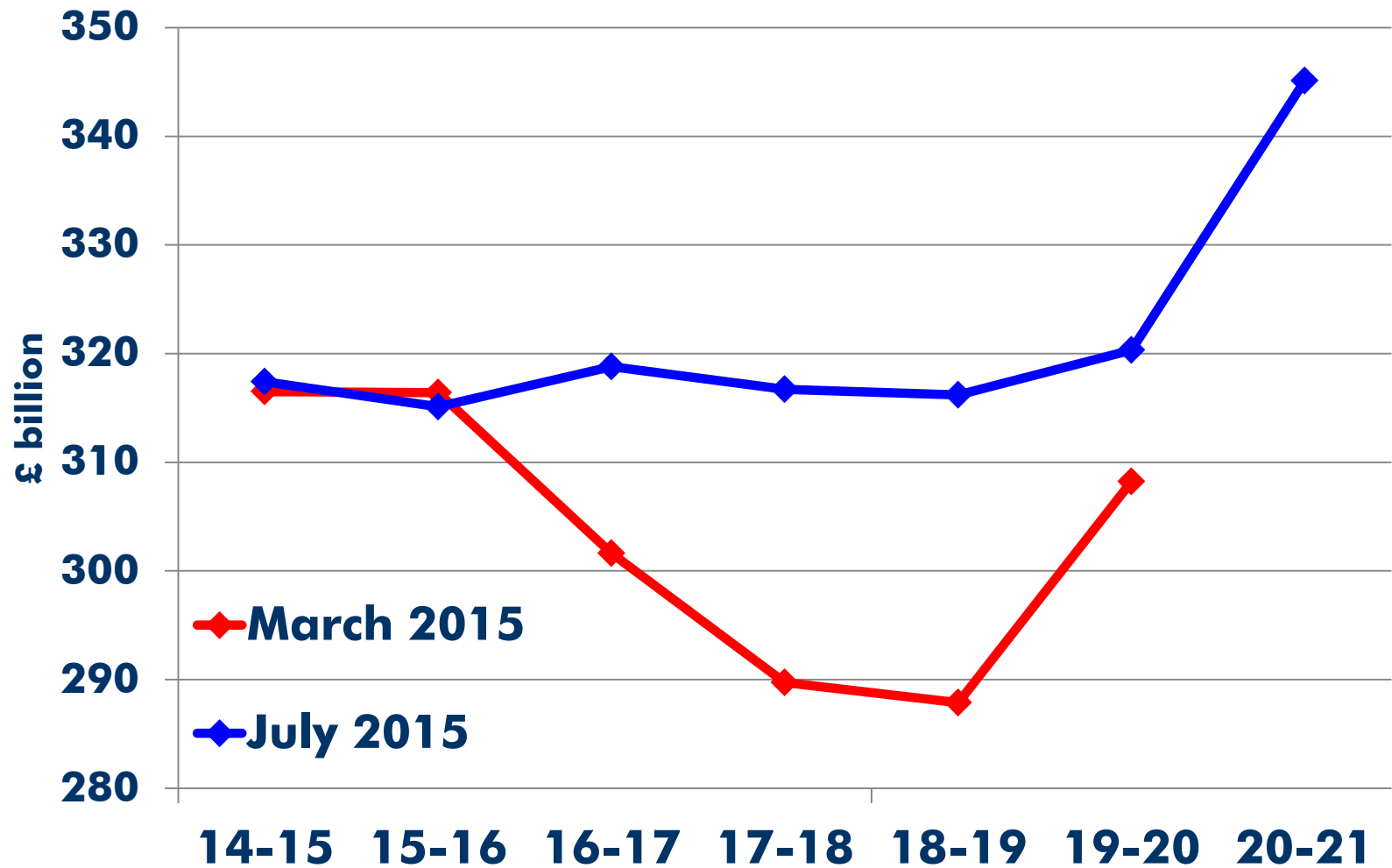
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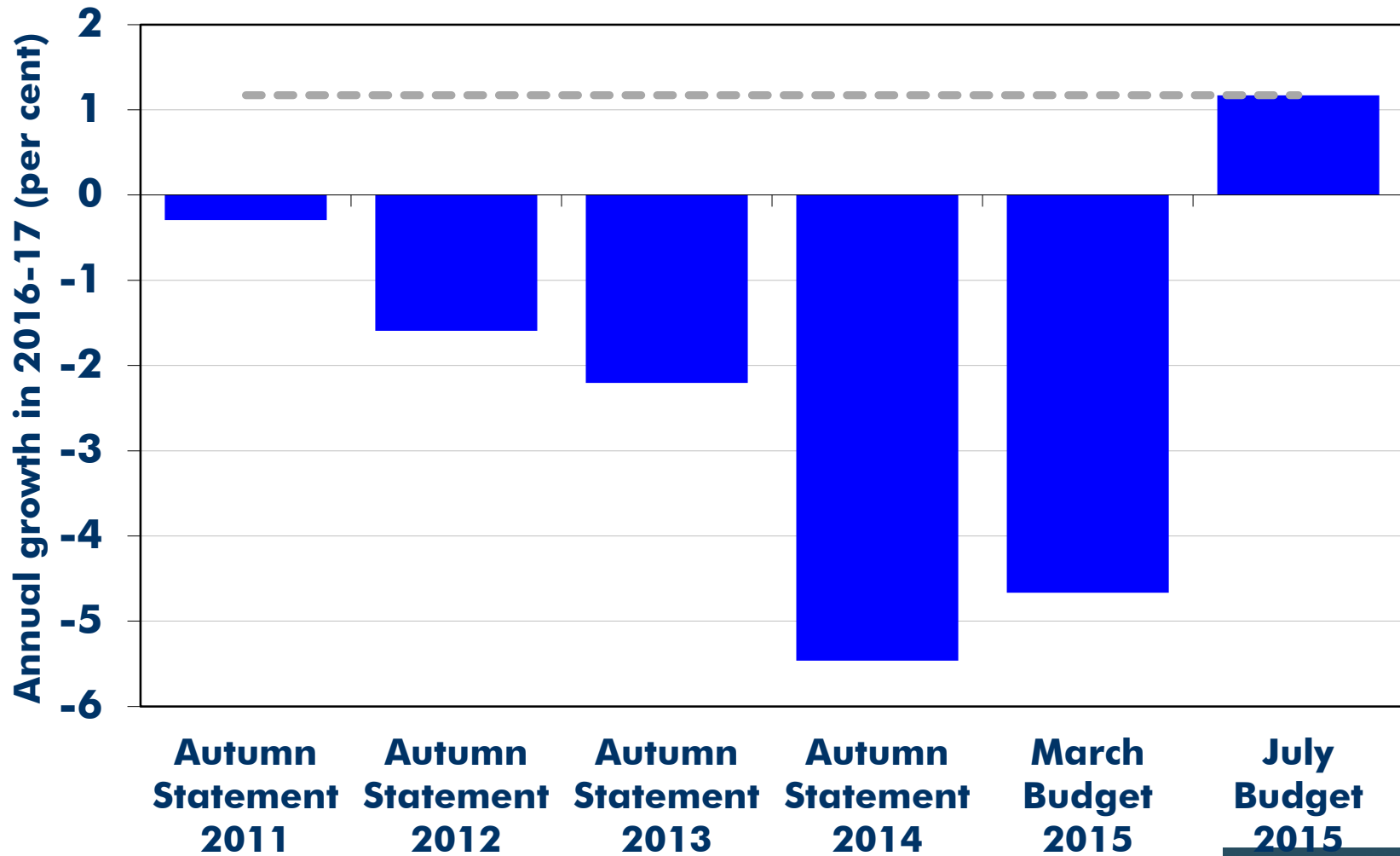
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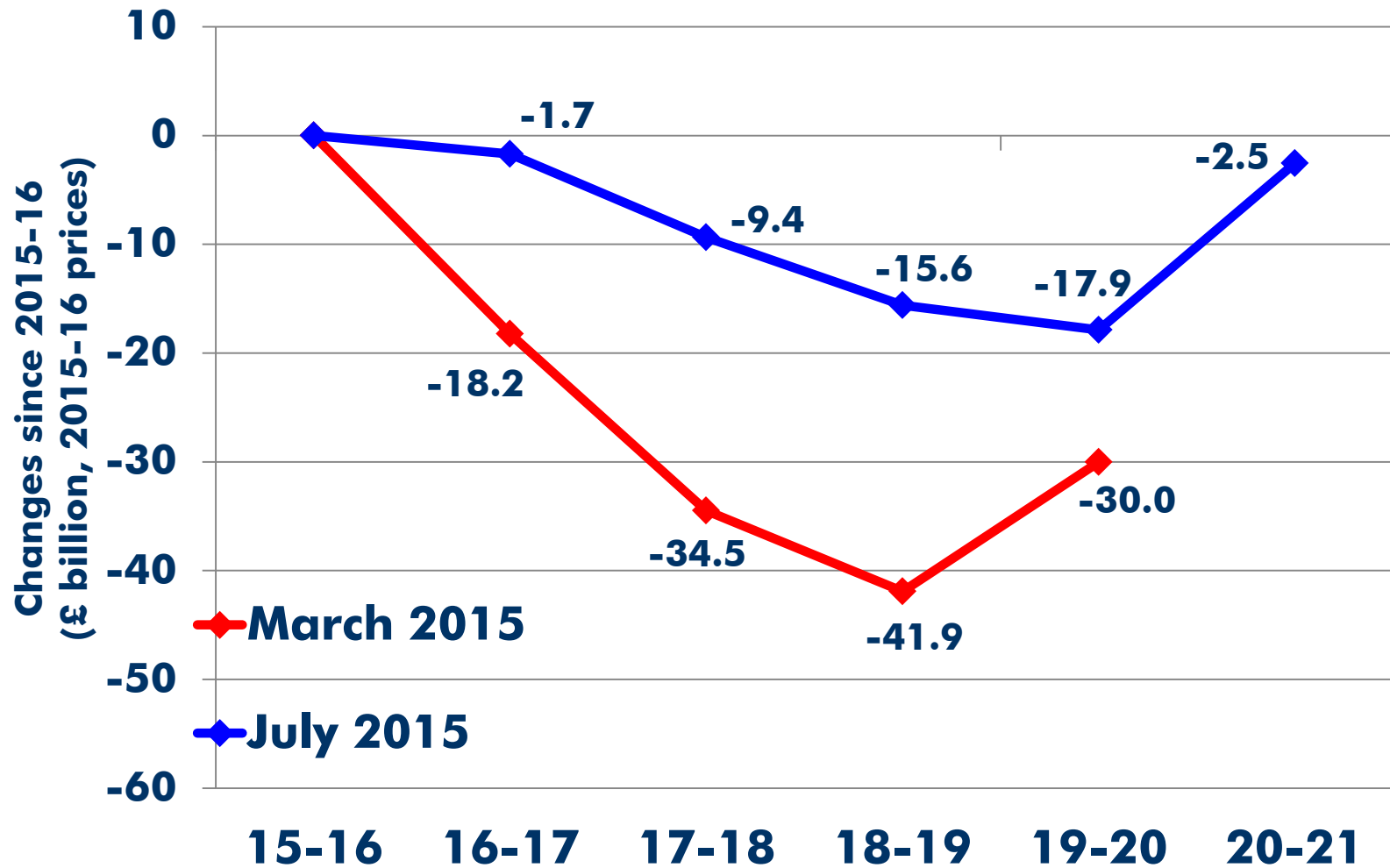
Public services spending



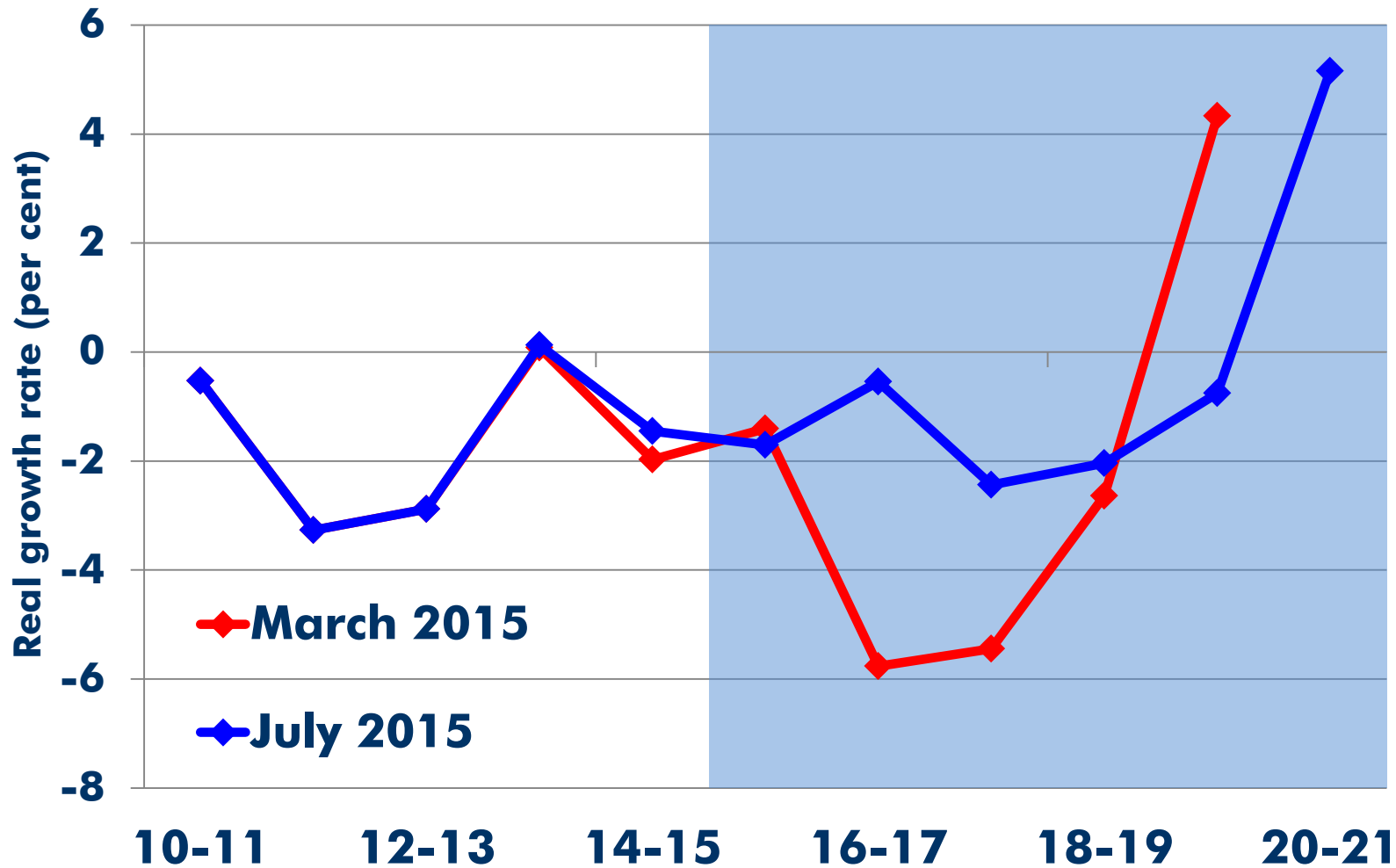
Public services spending



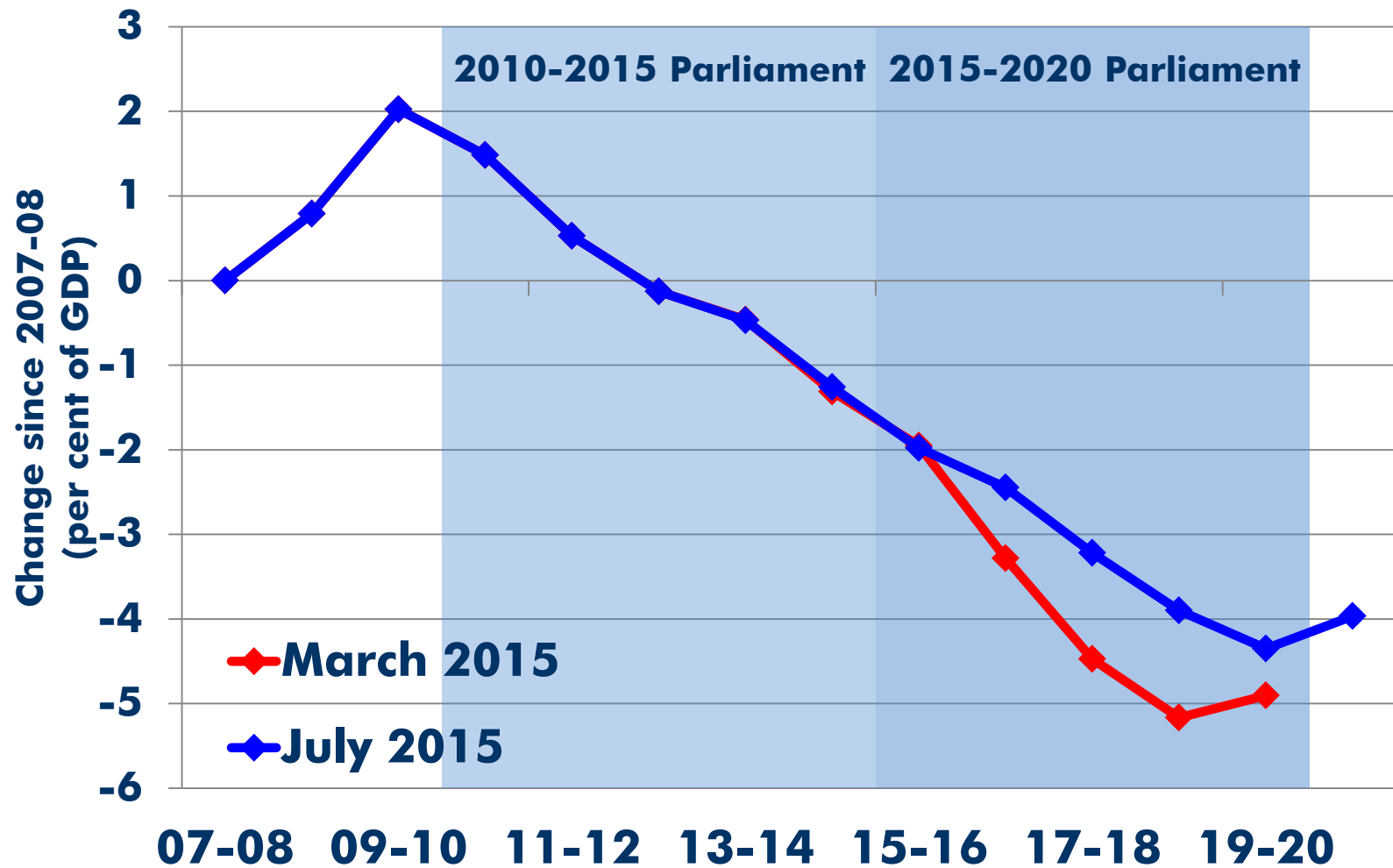
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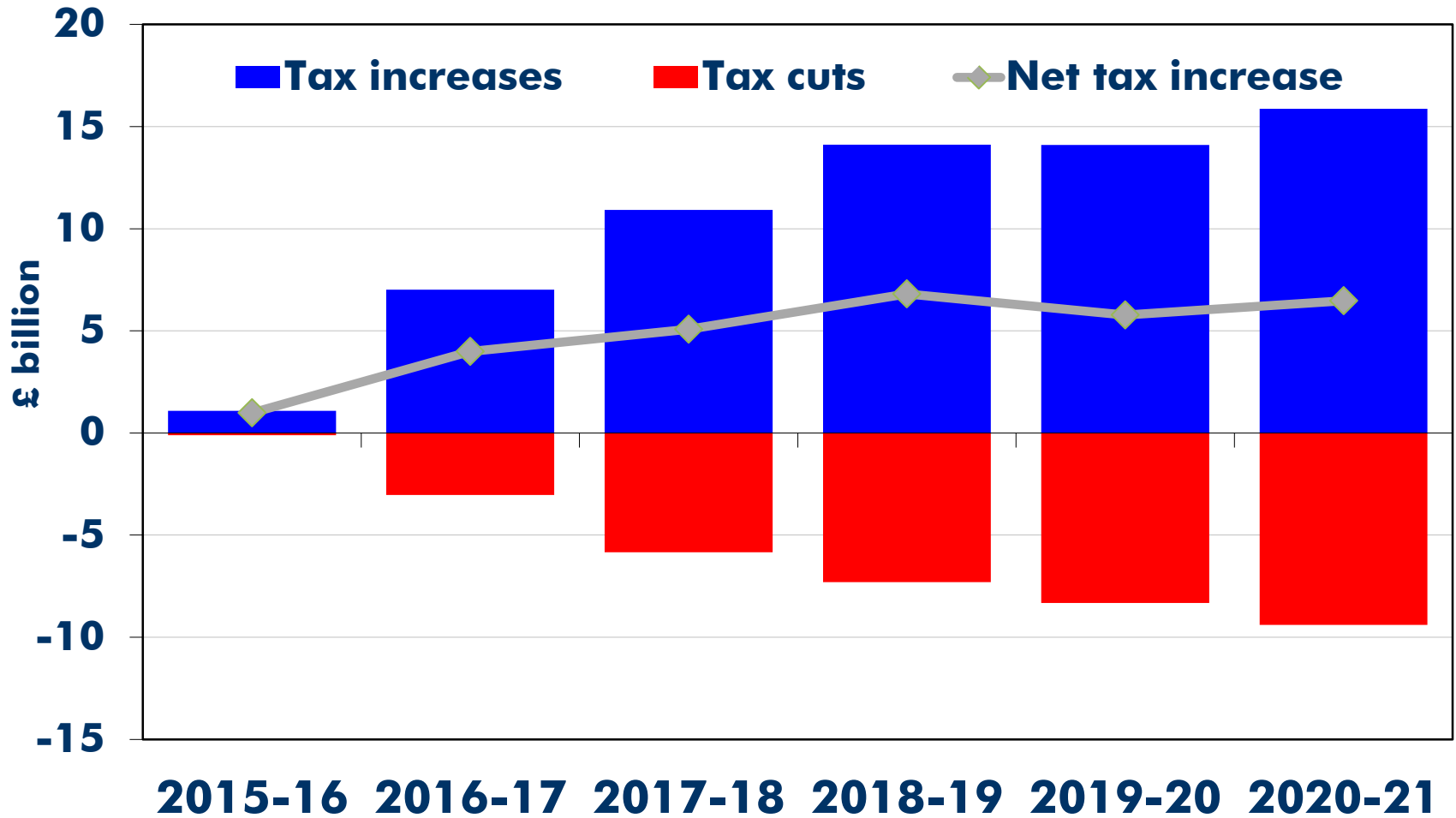
Public services spending



Public services spending



Tax measures



Tax measures: cuts

£ million	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total	-110	-3,030	-5,840	-7,300	-8,325	-9,395
<i>Of which</i>						
CT main rate	0	-10	-605	-1,600	-1,870	-2,475
Personal allowance	0	-1,055	-1,160	-1,195	-1,160	-1,200
Inheritance tax	0	0	-270	-630	-790	-940

Tax measures: increases

£ million	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total	1,090	7,020	10,915	14,110	14,095	15,870
<i>Of which</i>						
Dividends	0	2,730	-530	1,565	2,560	2,525
Insurance premium tax	530	1,460	1,510	1,530	1,550	1,580
Vehicle excise duty	0	250	195	670	940	1,425
Pensions tax relief	-70	260	425	900	1,180	1,280
CT timing	0	0	4,495	3,135	140	60

Tax measures: avoidance etc

- **Chancellor said in March Budget that he wanted to raise £5bn by 2017-18 from “tax avoidance, evasion and aggressive tax planning”**
- **Measures in this Budget raise £1.3bn in 2017-18 and almost £5bn in 2019-20 from “total imbalances in the tax system, avoidance and tax planning, and evasion and compliance”**
- **Biggest revenue raisers are ending renewables exemption in climate change levy and greater HMRC compliance activity**

Tax measures: avoidance etc

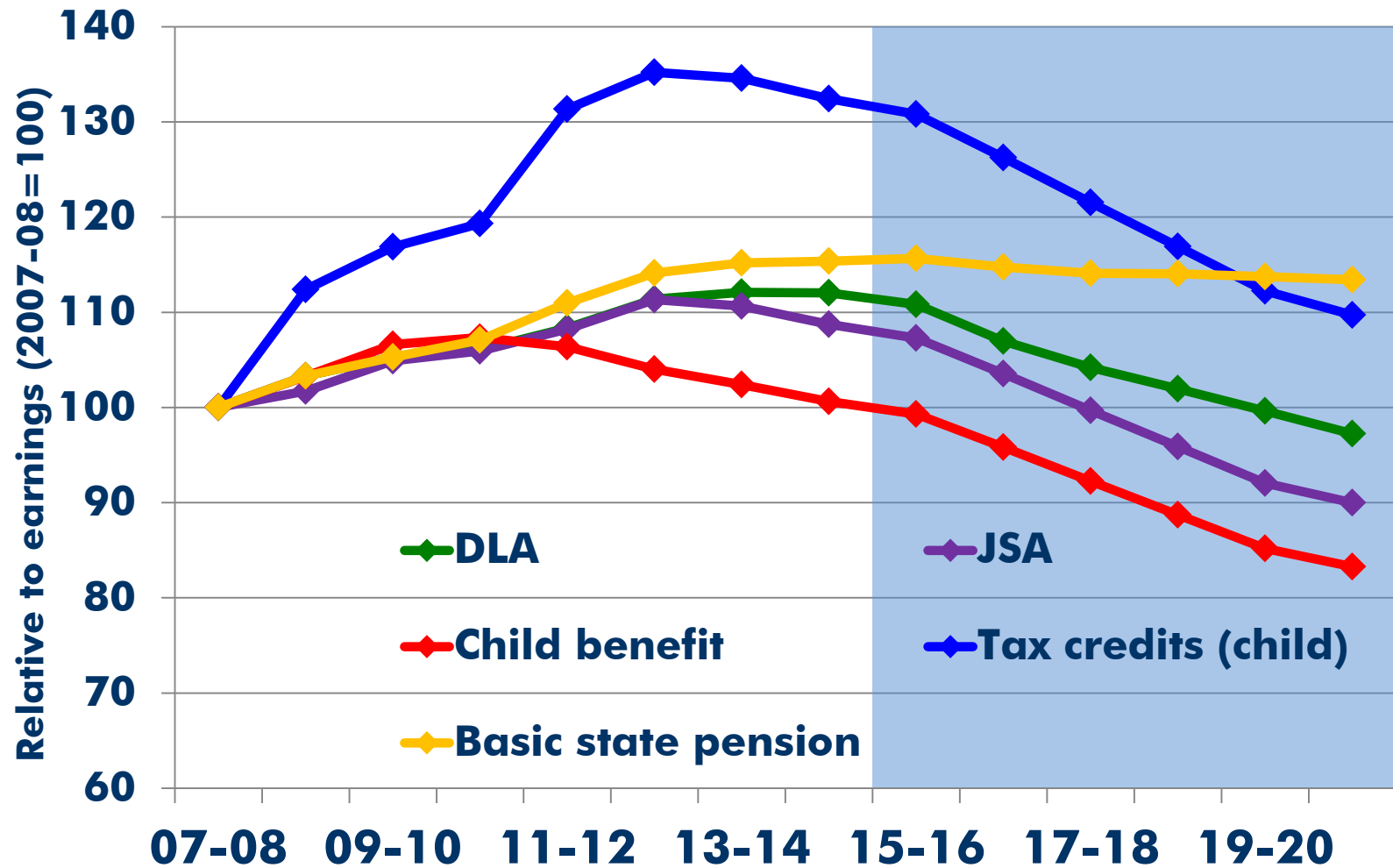
- **Some of this requires extra resources for HMRC and we needed to be assured on baseline too**

£ million	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
HMRC compliance baseline (RDEL)	1,190	1,150	1,110	1,085	1,065	1,045
Investment to support HMRC's operational package (RDEL)	50	165	215	220	225	225
Investment to support HMRC's operational package (CDEL)	10	60	55	50	40	30

Welfare cuts

£ million	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total	255	5,585	6,910	9,705	12,455	13,340
<i>Of which</i>						
Uprating freezes	0	90	940	2,325	3,885	4,010
Reduce income thresholds/work allowances	0	2,880	3,060	3,180	3,310	3,440
Social sector rents	0	165	475	875	1,320	1,445
Limit child element	0	0	315	700	1,055	1,365

Benefits relative to earnings



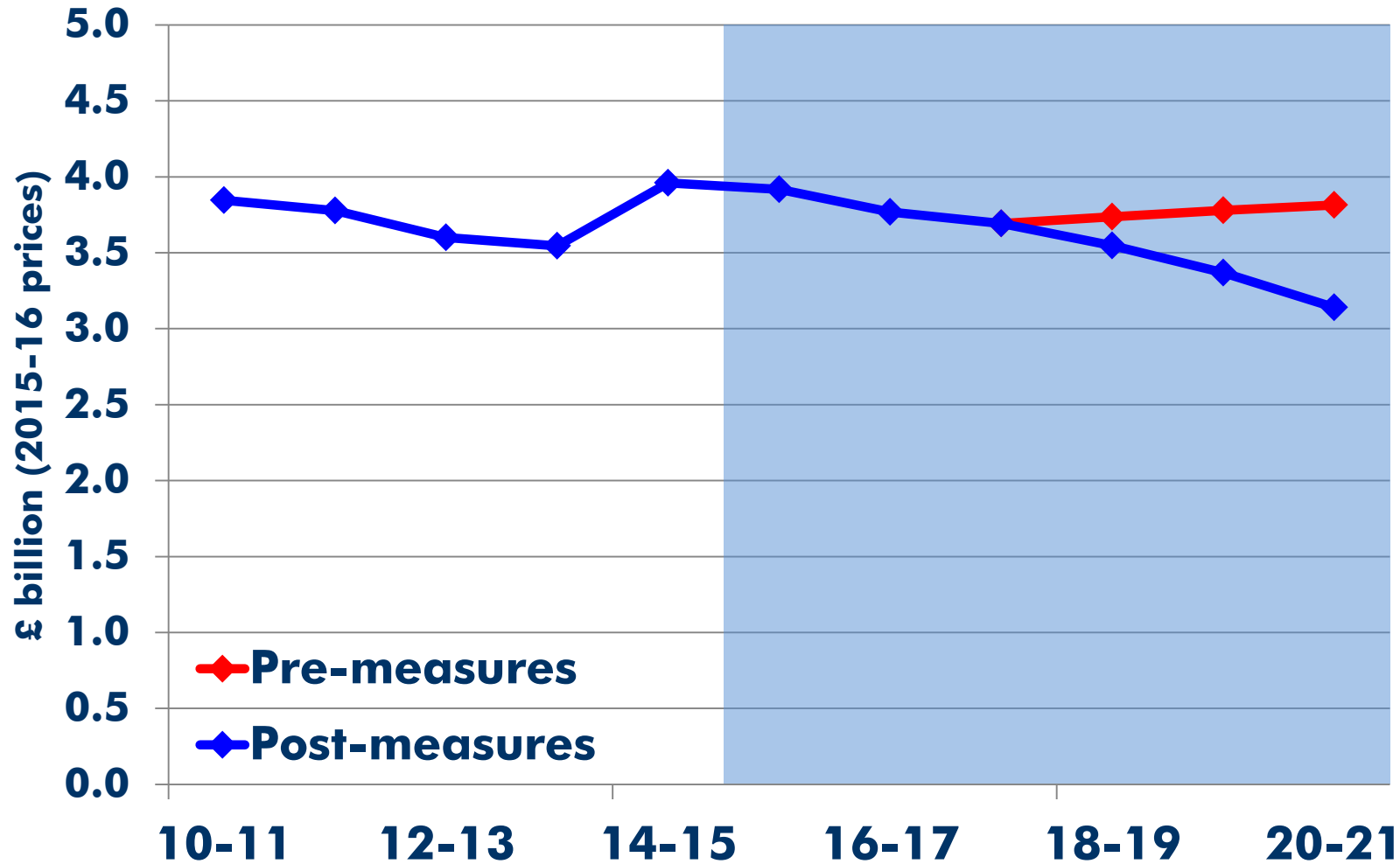
The welfare cap

£ billion	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
March welfare cap	119.7	122.3	124.8	127.0	129.8	
March forecast	120.6	121.0	121.8	124.0	126.5	
<i>Pre-measures forecast</i>	+0.3	+0.1	+0.1	+0.0	-0.2	
<i>Policy measures</i>	-0.3	-5.9	-7.3	-10.1	-12.9	-14.0
July forecast	120.6	115.2	114.6	114.0	113.5	114.9
Difference from March cap	0.8	-7.1	-10.2	-13.0	-16.3	
July welfare cap		115.2	114.6	114.0	113.5	114.9

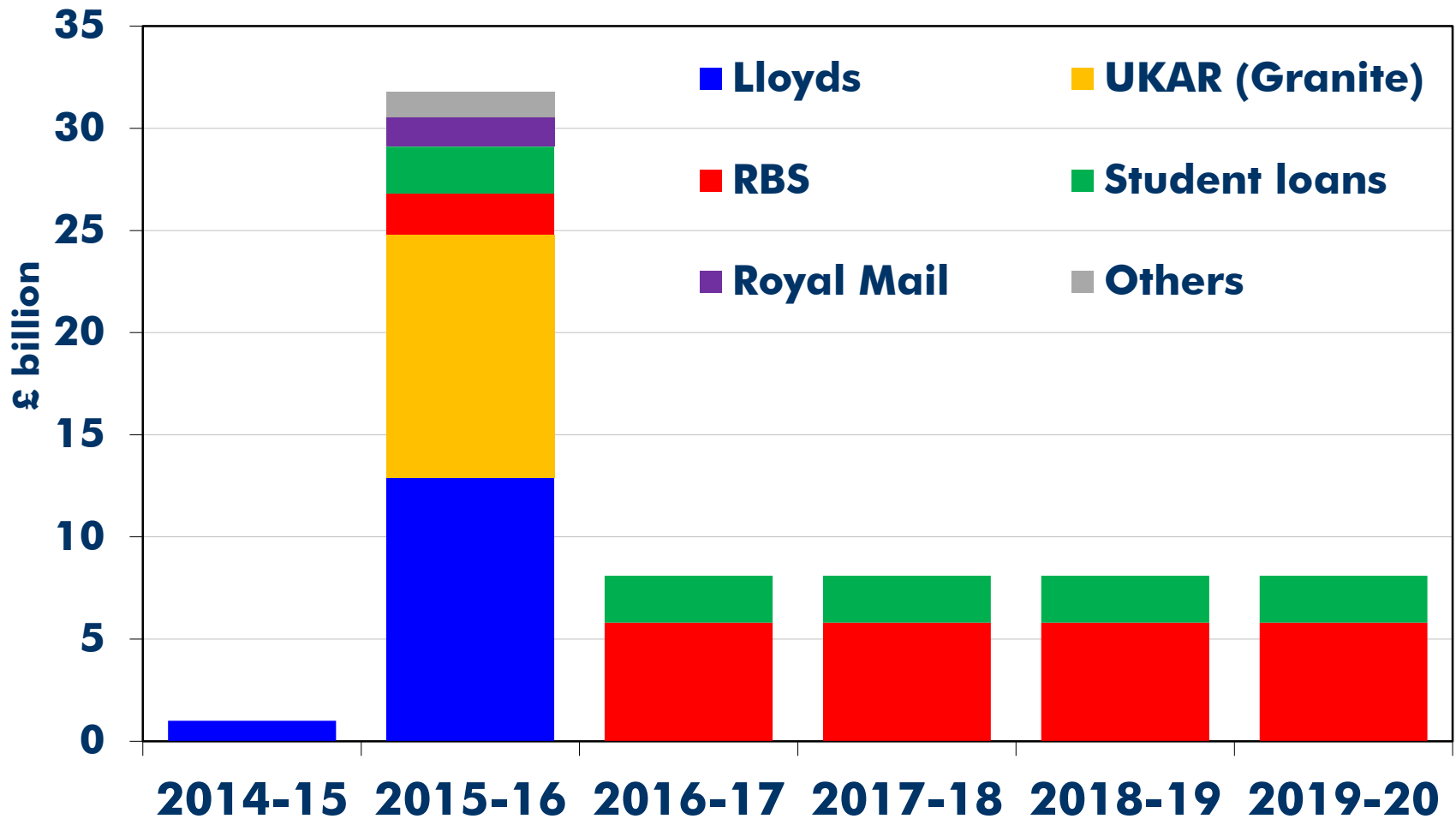
Other spending cuts

- **£1.6bn a year cut from central government capital spending on average, to keep total public sector gross investment unchanged since March**
- **Funding for the BBC cut by £0.2m in 18-19, £0.4m in 19-20 and £0.7m in 2020-21- no longer reimbursed for cost of free TV licences for over 75s**
- **Impact on spending assumed to be slightly lower in the first two years from a call on reserves**

Real spending by the BBC



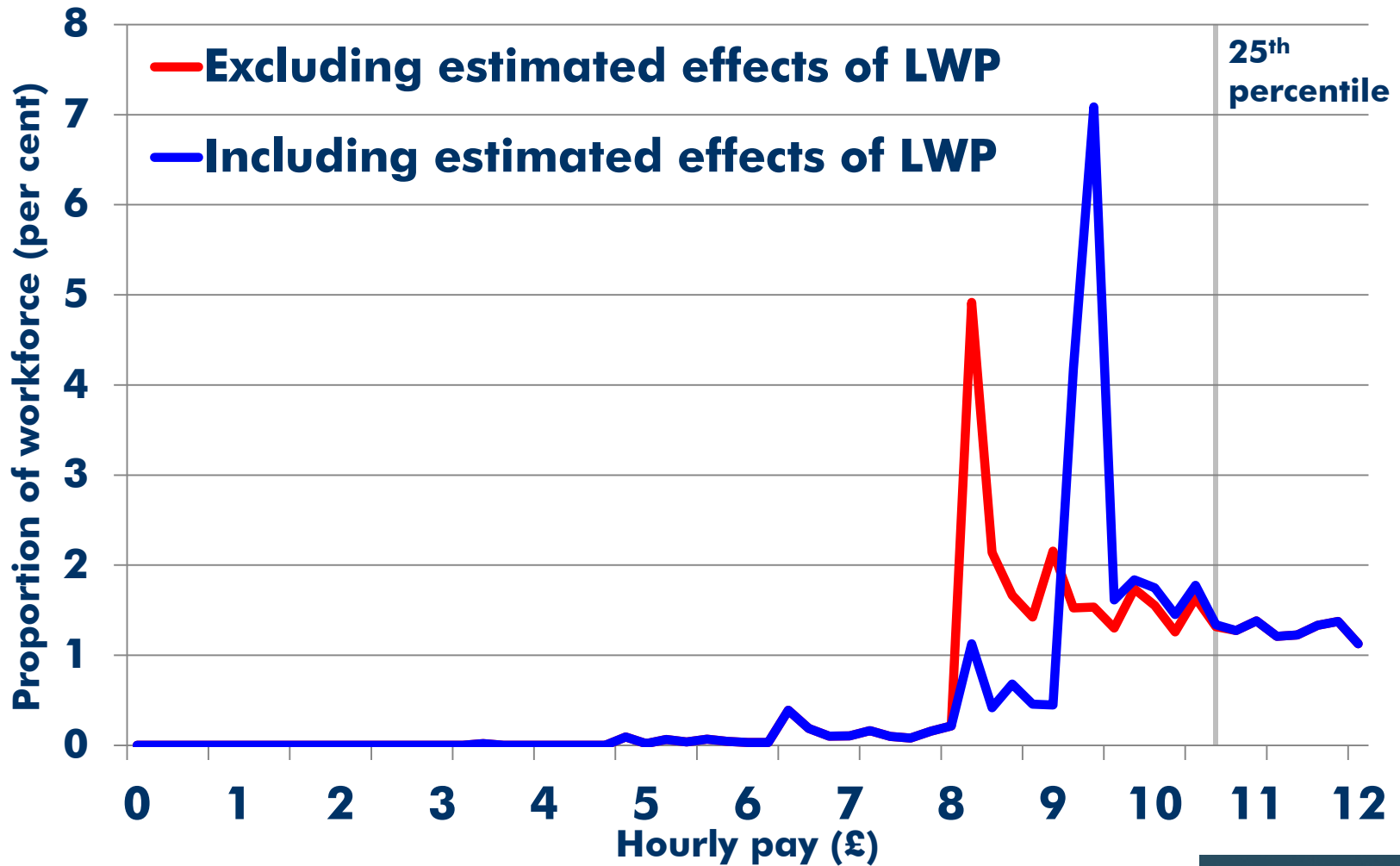
Proceeds from major asset sales



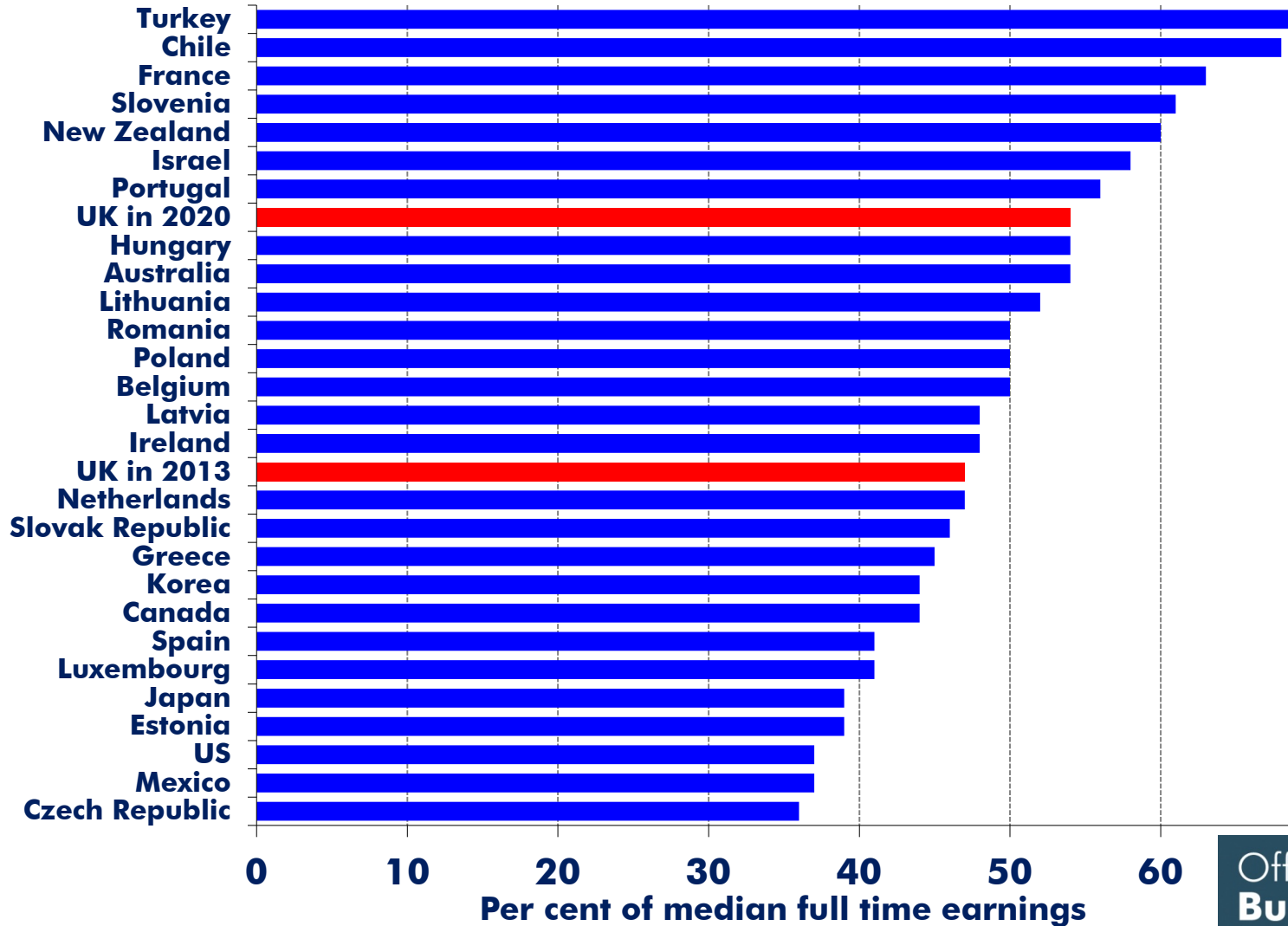
National Living Wage

- **On top of NMW for 25 and over from April 2016**
- **Aim to reach 60% of the median earnings of the affected group in 2020 – around £9.35 an hour**
- **Increases effective MW by 13% for affected group**
- **Pre-behaviour effect**
 - 3/4m people move from NMW to NLW
 - 2m people move from above NMW to NLW
 - 3¹/₄m people above NLW also see some increase

National Living Wage



Minimum wages in the OECD



National Living Wage

- **Wage bill up £4bn if no change in jobs and hours**
- **But we assume total hours down 4m a week**
- **Half heads and half hours:**
 - 60,000 rise in structural unemployment
 - 0.2% fall in trend average hours
- **Potential output down 0.1%**
- **Profits down 0.3%; prices up 0.1%**
- **'Batting average' boost to productivity**
- **Fiscal impact very small: PSNB down £200m**
 - Positive: tax credits, VAT, income tax
 - Negative: pensions, OOW benefits, CT

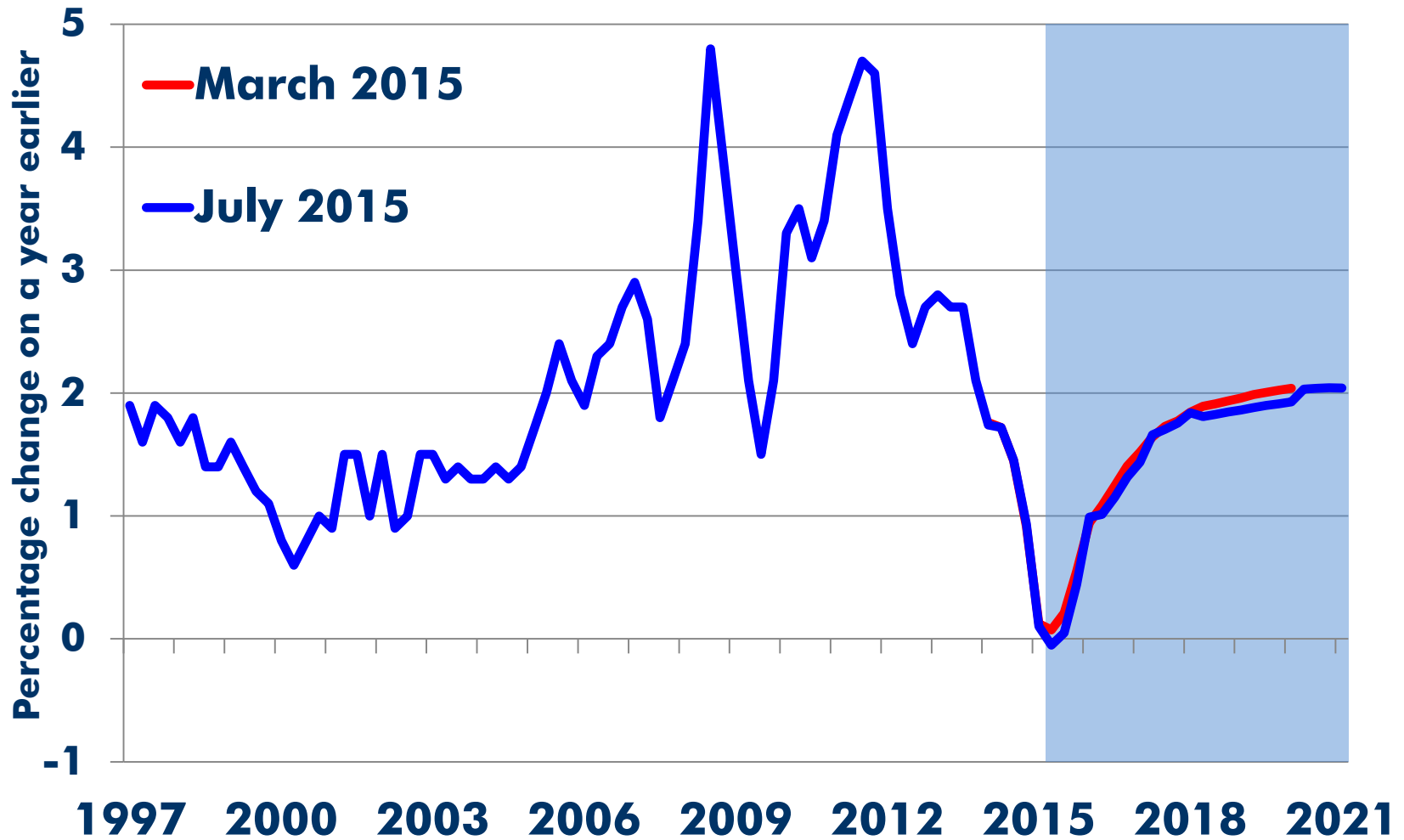
Economic impact of other measures

- **Multiplier effects: Real GDP growth down 0.1% in 15-16, up 0.2% in 16-17**
- **Nominal GDP effects larger and more persistent**
- **No net labour supply effect from welfare cuts**
- **Social sector rent cuts reduce housebuilding**
- **CT measures boost business investment 0.6%**
- **Inflation returns to target more slowly**

Real GDP growth

% growth p.a.	March EFO	July EFO	Change (to unrounded data)
2015	2.5	2.4	-0.1
2016	2.3	2.3	-
2017	2.3	2.4	+0.1
2018	2.3	2.4	+0.1
2019	2.4	2.4	-
2020		2.4	

CPI inflation



Public sector net borrowing

£ billion	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
March	75.3	39.4	12.8	-5.2	-7.0	
Forecast changes:						
<i>Receipts</i>	-4.9	-3.7	-4.0	-3.5	-3.1	
<i>Spending</i>	+2.0	+5.1	+7.5	+8.9	+10.5	
TOTAL	-3.0	+1.3	+3.4	+5.4	+7.4	
Policy decisions:						
TOTAL	-2.8	2.4	+8.0	+6.3	-10.4	
July	69.5	43.1	24.3	6.4	-10.0	-11.6
<i>Memo: total change</i>	-5.8	+3.7	+11.5	+11.6	-3.0	

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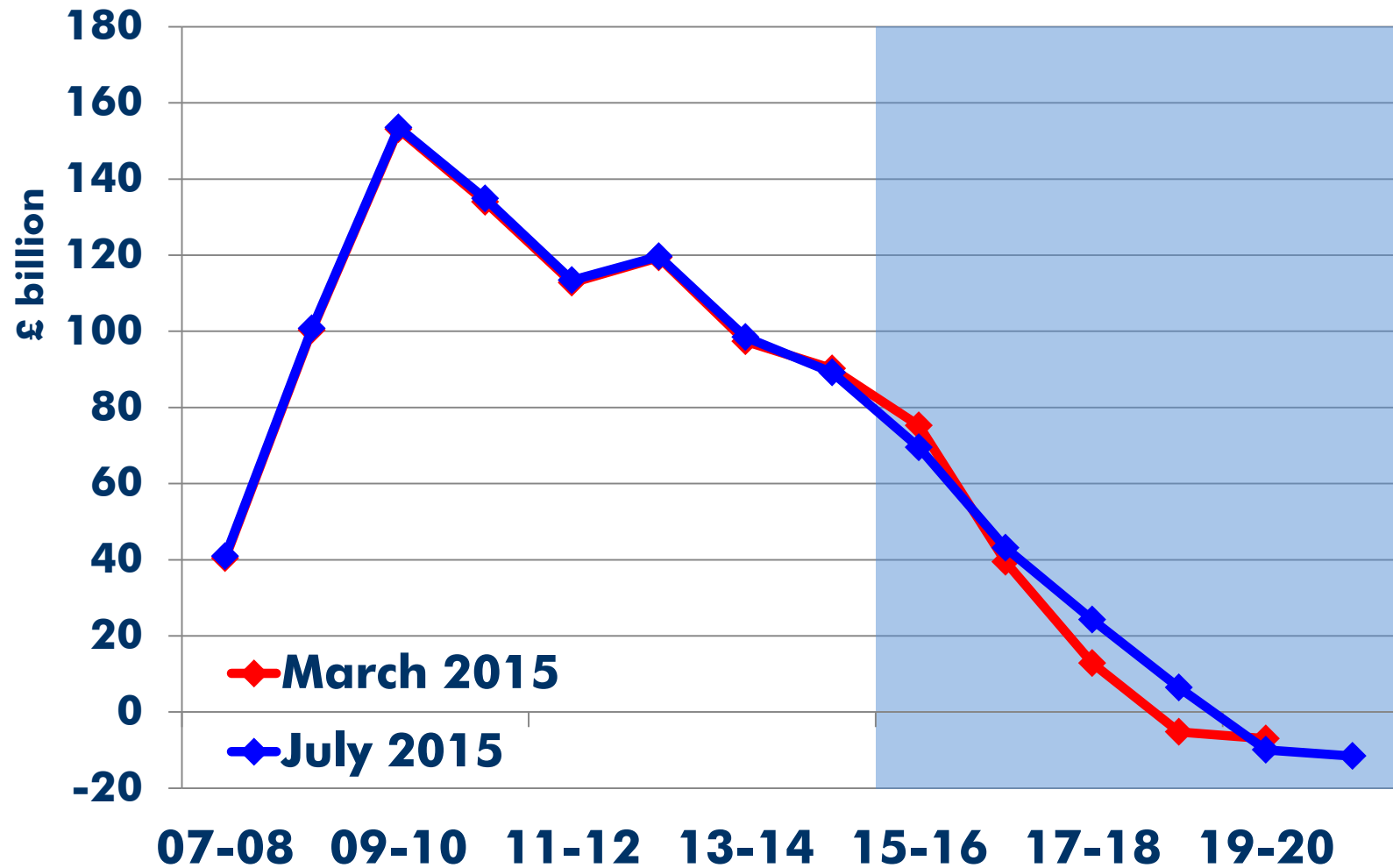
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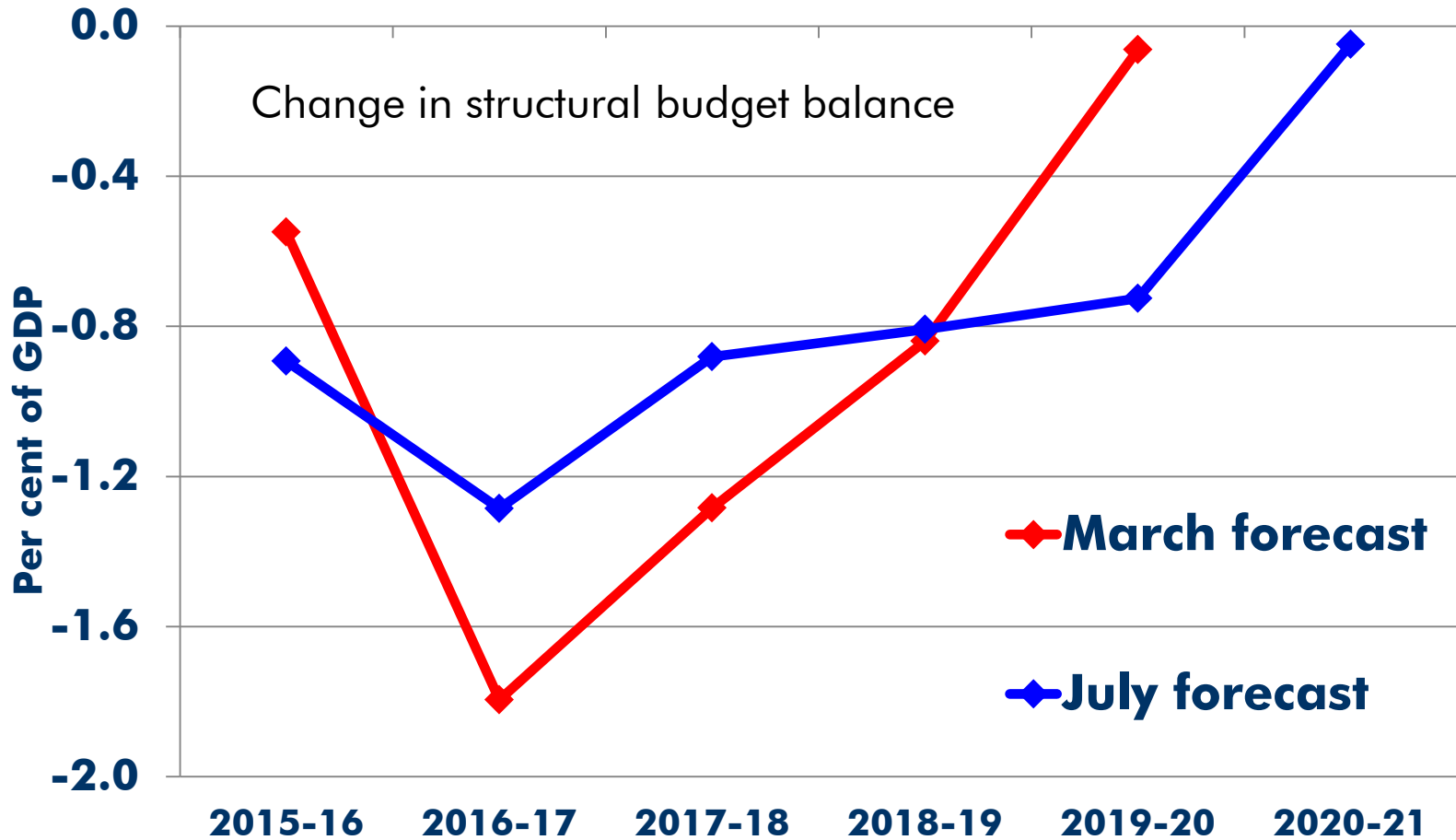
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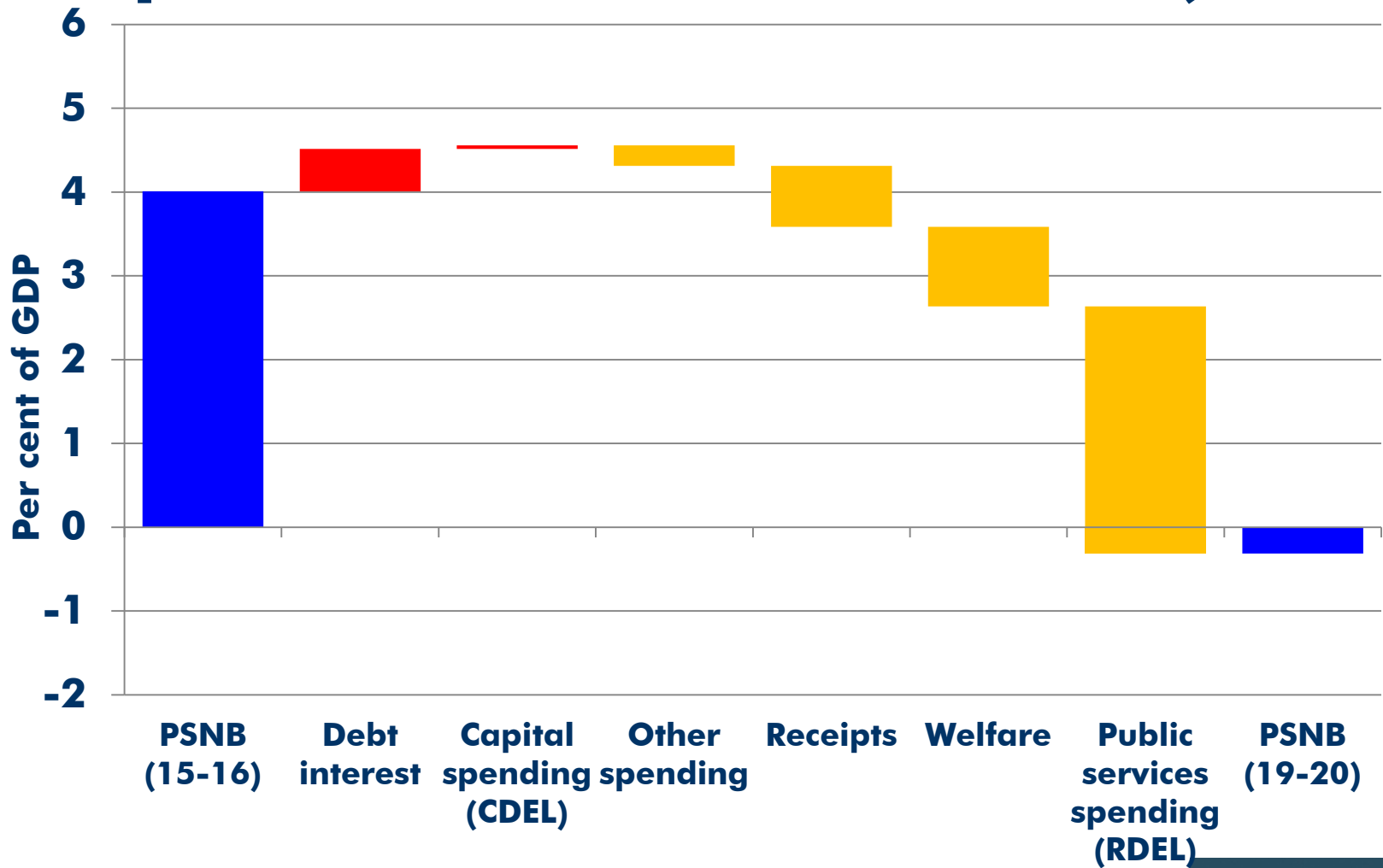
Public sector net borrowing



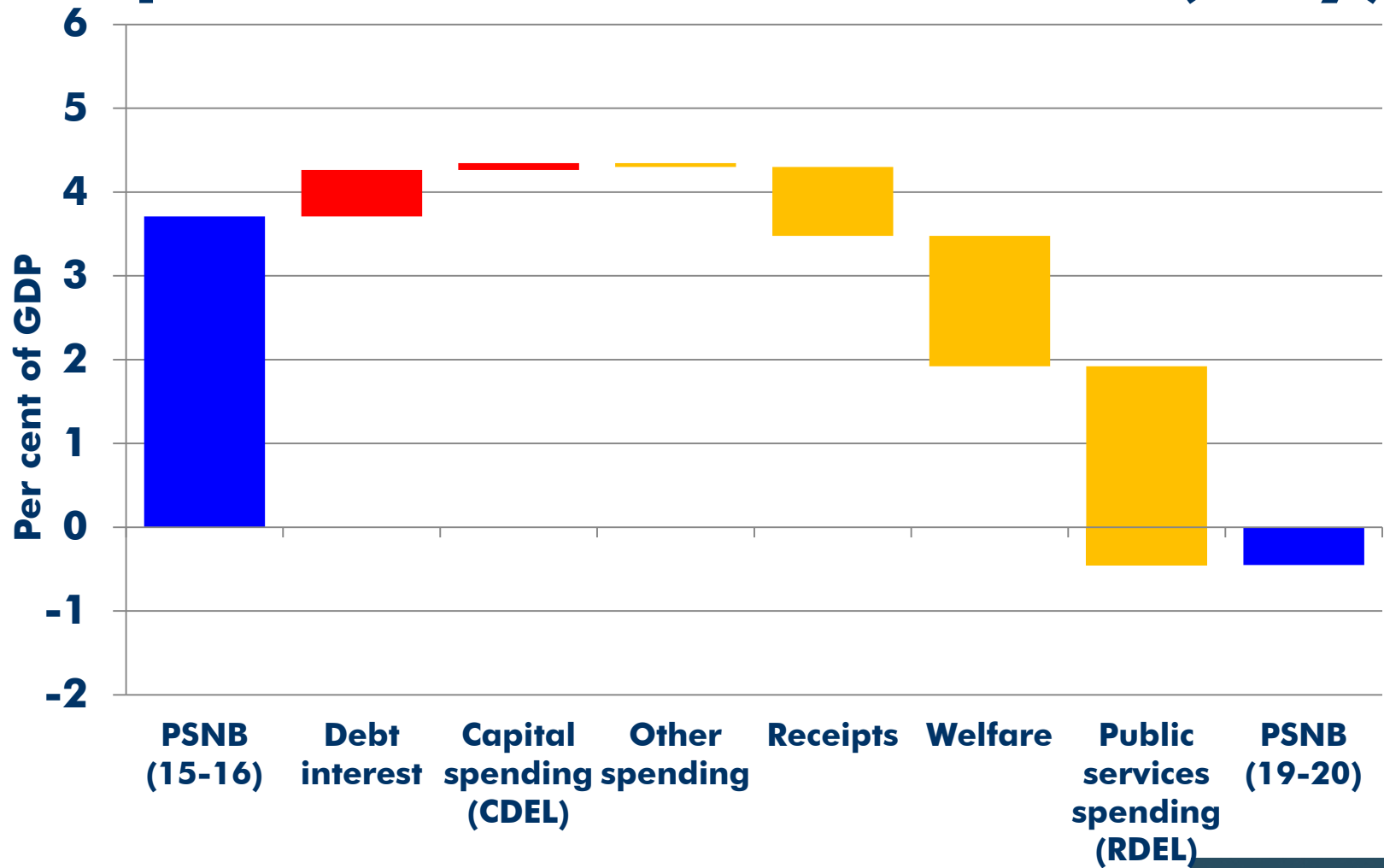
Pace of consolidation



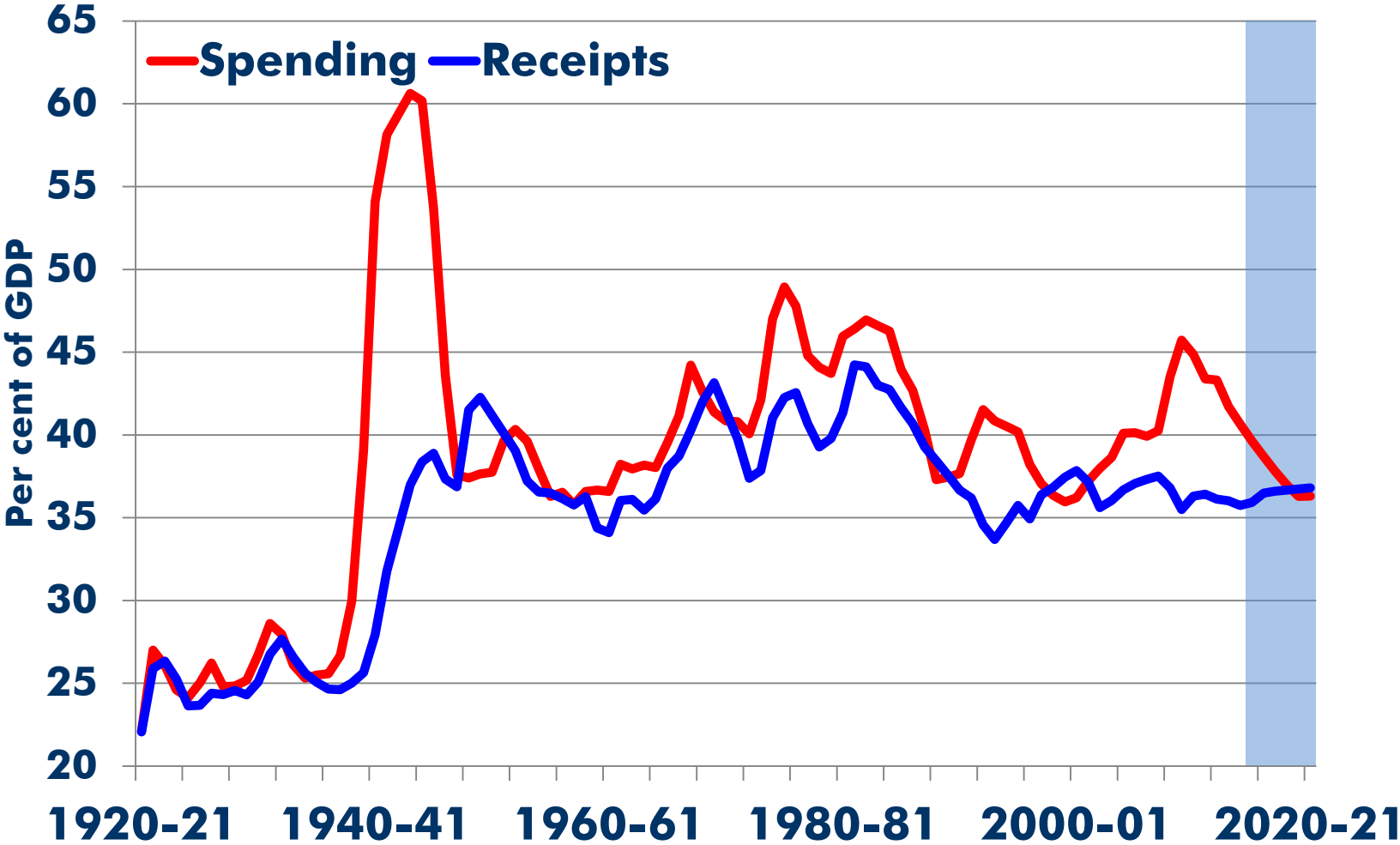
Composition of consolidation (March)



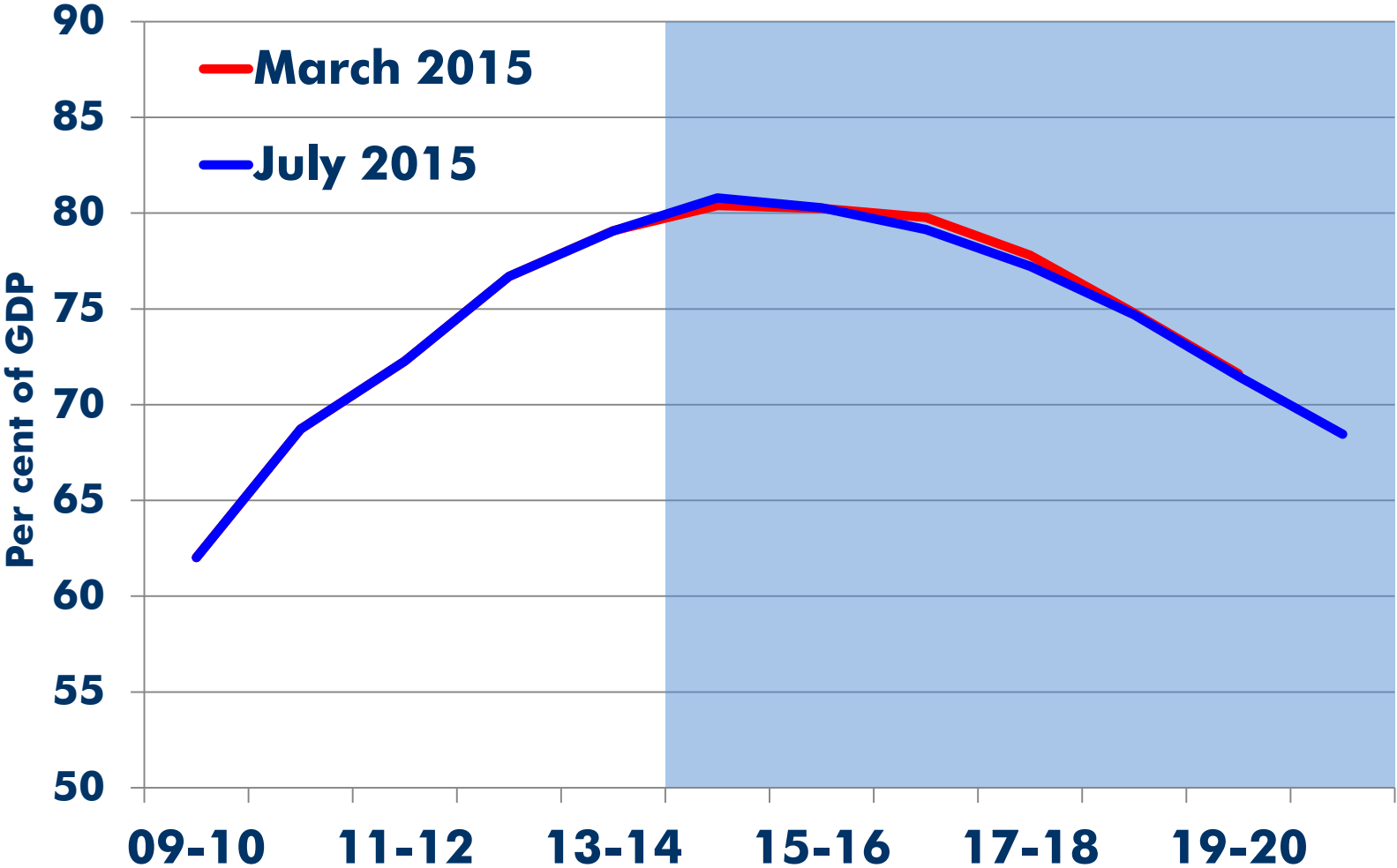
Composition of consolidation (July)



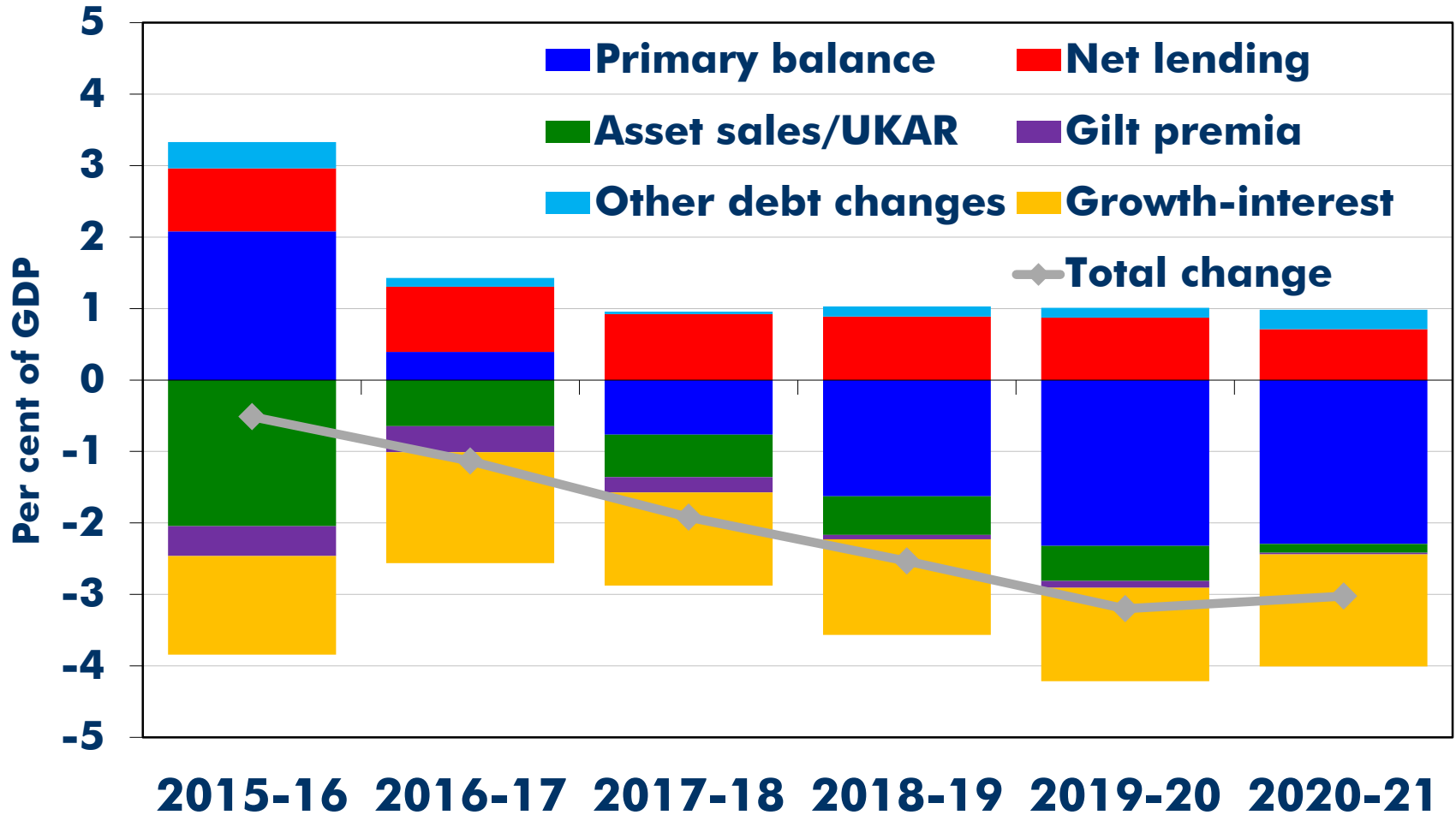
Receipts and spending



Public sector net debt



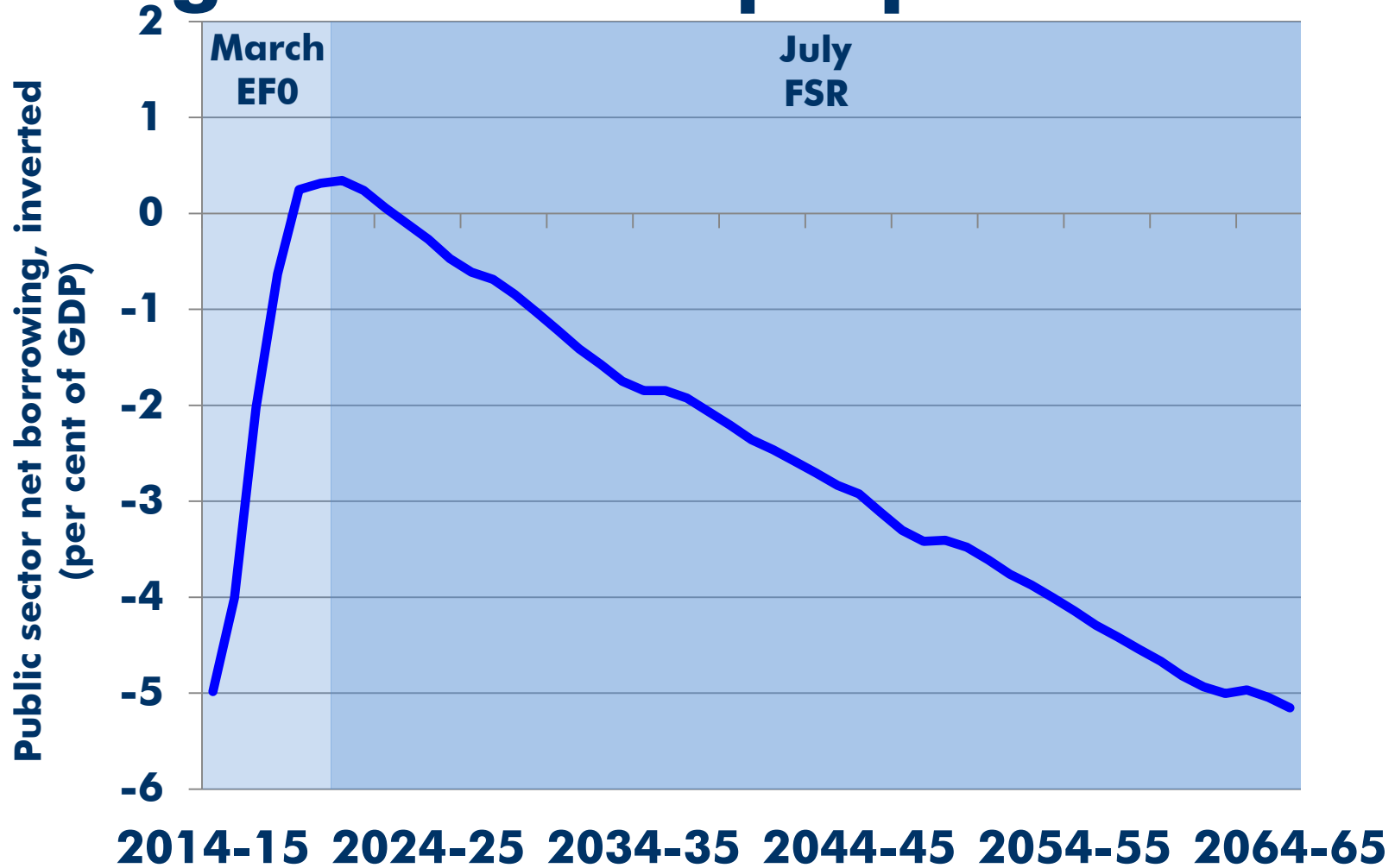
Why does net debt fall?



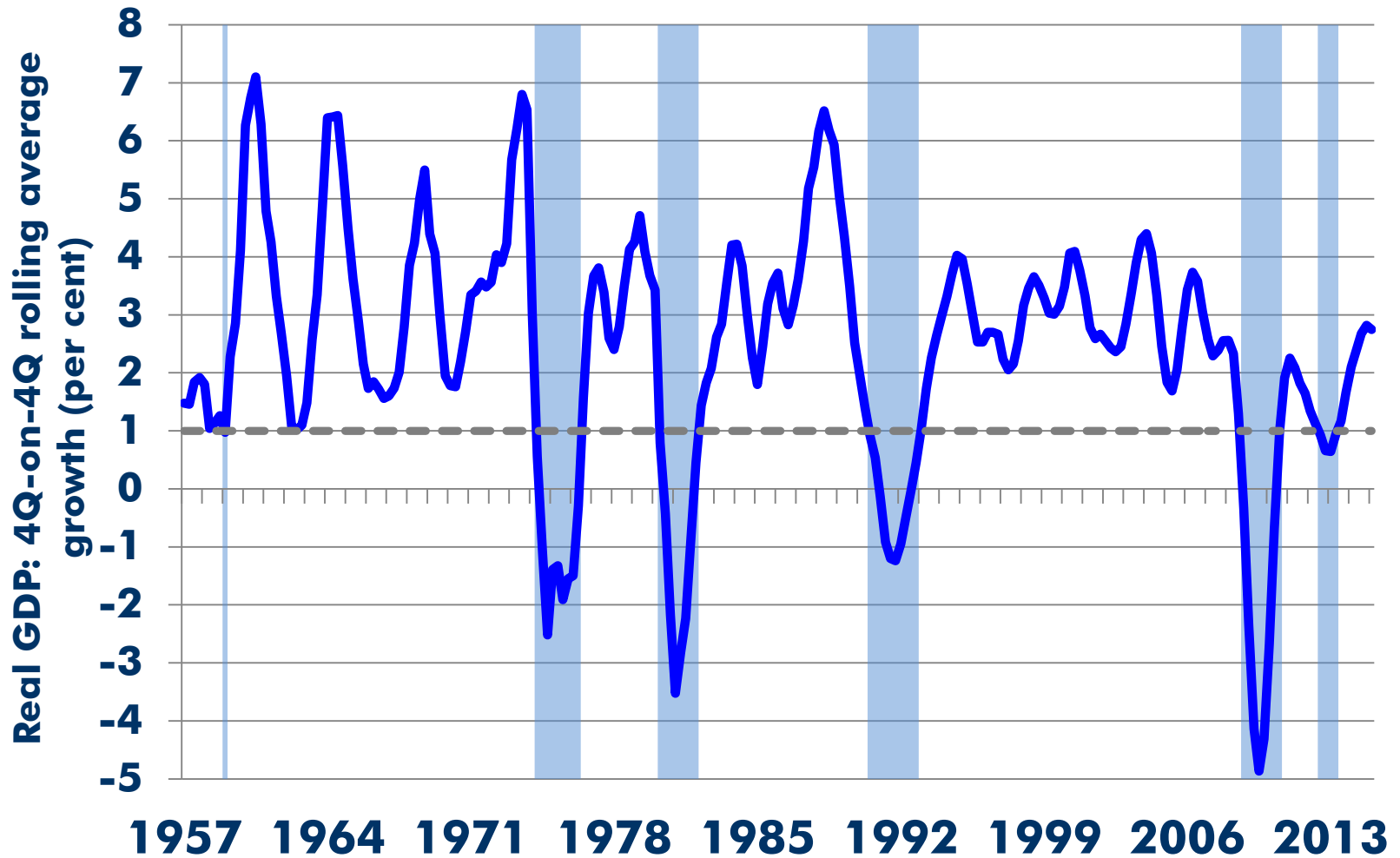
The fiscal rules

	Margin by which rule on course to be met
Current	
Cyclically adjusted current budget in surplus three years ahead (2018-19)	1.1% of GDP
Net debt falling in 2016-17 as % GDP	1.1% of GDP
Proposed	
Public sector net borrowing in surplus in 2019-20	0.4% of GDP
Net debt falling every year as % GDP	0.5% to 3.2% of GDP

Long-term PSNB projections



The negative shock threshold



Conclusion

- **Big fiscal package**
- **June 2010 Budget increased size and speed of consolidation. Later statements extended it and tightened the squeeze on public services**
- **This Budget slows the consolidation and makes it less reliant on public services spending cuts**