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. 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 costings process worked reasonably efficiently, with initial information being submitted in a timely manner and requests for additional information generally being met promptly too. Some measures went through many rounds of scrutiny and we are grateful to the analysts involved for their patience in answering our questions. This has allowed us to certify all tax and AME measures announced since March as reasonable and central.

A.3 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 October 2021 Budget and Spending Review

A.4 In the first multi-year Spending Review since 2015, the Chancellor has announced a large and sustained increase in departmental resource spending that is financed partly by higher taxes (particularly the new health and social care levy) but partly also by higher borrowing. Net giveaways increase borrowing by a peak of £15.5 billion in 2022-23, before declining steadily to £4.8 billion by 2026-27, as the yield from net tax rises continues to build whereas the scale of spending increases diminishes.

[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.

A.5 Table A.1 presents the aggregate direct and indirect effects of new policy announcements since March. It shows:

- A significant increase in **departmental resource spending and equivalent Scottish Government spending** of £37.9 billion in 2022-23 and an average of £26.9 billion a year from 2023-24 onwards. These increases more than reverse the unspecified cuts relative to pre-pandemic plans that were announced at the November 2020 Spending Review and increased in the March 2021 Budget. We assume that between 5 and 10 per cent of these additions to budgets will go unspent – a smaller margin than the large shortfalls recorded this year and last.

- Modest net changes to **other spending** that are uneven across years and reflect larger, but mostly offsetting, measures. The largest takeaway relative to the pre-measures position comes from uprating state pensions with CPI inflation of 3.1 per cent rather than with average earnings growth of 8.3 per cent. The largest giveaway relates to universal credit, where a more generous taper rate and a £500 a year increase in the work allowance have been announced.

- Significant further **net tax rises**, which lower borrowing by £17.4 billion in 2022-23, rising to £24.3 billion in 2026-27. These are dominated by the new health and social care levy – the direct effect of which raises an average of £17.3 billion a year[2] from 2022-23 onwards (although net of its effect on wages, it raises £14.7 billion a year). The largest tax cut is the traditional one-year fuel duty freeze. The latest net tax rises come on top of others announced since the start of the pandemic, in particular the March 2021 Budget measures raising the main rate of corporation tax and freezing income tax thresholds for five years.

- The **indirect fiscal effect of policy decisions** via their implications for the wider economy lowers borrowing by a peak of £7.1 billion in 2023-24, when the boost to nominal GDP from the discretionary fiscal loosening is at its greatest. This effect dissipates over time, though the higher price level continues, raising receipts in the medium term. By 2026-27, it is largely offset by lower receipts as the additional payroll costs for employers associated with the health and social care levy are passed through into lower wages, reducing the take from income tax and NICs by £2.9 billion in that year (see paragraph A.10 for further discussion).

[2] This is just referring to the tax element, which is marginally different to the scorecard costing, which also includes some spending.

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

	£ billion					
	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Total effect of Government decisions	**0.7**	**15.5**	**11.4**	**5.4**	**5.4**	**4.8**
of which:						
Direct effect of scorecard policies	3.0	25.4	21.9	9.8	7.5	7.7
Direct effect of non-scorecard policies	-3.2	-4.3	-3.3	-1.4	-1.5	-1.6
Indirect effect of Government decisions	0.9	-5.5	-7.1	-3.0	-0.6	-1.3
Direct effect of scorecard policies	**3.0**	**25.4**	**21.9**	**9.8**	**7.5**	**7.7**
of which:						
Resource DEL and Scottish AME	**1.2**	**41.8**	**32.9**	**27.0**	**26.4**	**27.5**
Capital DEL and Scottish AME	**0.0**	**-0.5**	**2.9**	**-1.2**	**-0.5**	**-0.5**
AME spending (excluding Scottish)	**0.6**	**-2.3**	**-0.7**	**-0.6**	**-2.6**	**-2.6**
of which:						
State pensions triple-lock	0.0	-5.4	-5.8	-6.1	-6.5	-6.7
UC taper and work allowance	0.7	2.2	2.4	2.5	2.8	3.0
Other AME spending	-0.1	0.9	2.7	3.1	1.1	1.1
Receipts	**1.1**	**-13.7**	**-13.2**	**-15.4**	**-15.7**	**-16.7**
of which:						
Health and social care levy	0.0	-16.7	-17.0	-17.1	-17.6	-18.2
Other tax rises	-0.5	-0.7	-5.4	-5.0	-5.7	-6.1
Tax cuts	1.6	3.7	9.2	6.8	7.5	7.6
Direct effect of non-scorecard policies	**-3.2**	**-4.3**	**-3.3**	**-1.4**	**-1.5**	**-1.6**
of which:						
Resource DEL	-2.7	-3.9	-2.3	-1.3	-1.3	-1.3
Other tax and spending decisions	-0.5	-0.4	-1.0	-0.1	-0.2	-0.3

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

A.6 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	
Spending Review 2021									
1	Resource DEL: adjustment to spending envelope and spending assumption[3]	Spend	0	-24,820	-19,165	-12,010	-10,165	-10,755	NA
2	Memo: returning ODA spend to 0.7% GNI		0	0	0	-5,220	-5,410	-5,615	NA
3	Capital DEL: adjustment to spending envelope and spending assumption[4]	Spend	0	-540	-3,940	+170	+540	+525	NA
Local government									
4	Local Authorities: reserves implications of Council Tax referendum principles	Spend	0	+20	+35	+55	+55	+60	Medium
5	Business Rates: continuation of retention pilots betw een 2022-23 and 2024-25	Spend	0	-105	-130	-155	-15	0	Low

Build Back Better: Plan for Health and Social Care									
6	Plan for Health and Social Care: spending	Spend	0	-14,050	-11,880	-13,035	-13,415	-13,910	NA
7	Health and Social Care Levy introduced from April 2022: gross yield[5]	Tax	+45	+16,505	+16,805	+16,905	+17,290	+17,875	Medium-High
8	*Memo: reduction in yield due to passthrough to wages by employers*		0	-2,060	-2,620	-2,720	-2,825	-2,935	NA
9	*Memo: compensation for the additional cost to public sector employers*	Spend	0	-1,735	-1,765	-1,800	-1,865	-1,935	NA
10	*Memo: net yield available to allocate to health and social care*[6]		0	+12,710	+12,420	+12,385	+12,600	+13,005	NA
11	Increase rates of dividend tax by 1.25% from April 2022	Tax	-15	+1,340	-540	+650	+815	+905	High
Raising living standards across the UK									
12	Universal Credit: reduce taper rate from 63p to 55p and £500 p.a. increase in work allowances from 1 December 2021	Spend	-745	-2,220	-2,385	-2,490	-2,755	-2,980	Medium
13	Fuel Duty: one year freeze in 2022-23	Tax	0	-1,510	-1,550	-1,580	-1,595	-1,615	Medium-Low
14	Alcohol Duty: reform to alcohol duties	Tax	0	-20	-115	-125	-140	-155	High
15	Alcohol Duty: one year freeze from February 2022	Tax	-80	-545	-560	-585	-600	-620	Medium-Low
16	Universal Credit: maintain the surplus earnings de minimis threshold at £2,500 per month in 2022-23	Spend	0	-70	0	0	0	0	Medium-High
17	Shared Accommodation Rate (SAR): exemptions for victims of domestic abuse and victims of modern slavery	Spend	0	-5	-10	*	0	0	Medium
Supporting businesses and jobs									
18	Business Rates: 50% relief for Retail, Hospitality and Leisure sectors in 2022-23, £110,000 cash cap[7]	Tax	+35	-1,860	+40	-10	0	0	Medium
19	Business Rates: freezing the multiplier in 2022-23	Tax	+15	-845	-900	-965	-965	-970	Low
20	Business Rates: relief for property improvements from 2023-24	Tax	0	+5	-145	-140	-145	-150	Medium-Low
21	Business Rates: support for green technology from 2023-24	Tax	0	*	-40	-40	-45	-50	Medium
22	Business Rates: extending the supporting small business and transitional relief schemes in 2022-23	Tax	*	-30	*	0	0	0	Medium
23	Business Rates: administrative changes to clarify eligibility for the smaller business multiplier	Tax	0	0	0	-5	-5	-5	Medium-Low
24	Annual Investment Allowance: extension of £1m level until 31 March 2023	Tax	-65	-240	-165	+115	+60	+50	Medium
25	Museum, Galleries and Exhibition Tax Relief (MGETR) sunset clause: extend to March 2024	Spend	0	0	-5	-10	-5	0	Medium-High
26	Theatre, Orchestra & MGETR Tax Relief: two-year tapered rate increase from April 2022	Spend	-5	-40	-115	-70	-15	0	Medium-High
27	HGV Road User Levy: suspend from August 2022 to 31 July 2023	Tax	0	-145	-80	-10	-10	-10	Medium-Low
28	Vehicle Excise Duty: freeze rates for HGVs in 2022-23	Tax	0	-10	-10	-15	-15	-15	Low
29	Bank Surcharge: set at 3% and raise the surcharge allowance to £100m	Tax	0	-220	-830	-975	-995	-1,020	Medium
30	Asset Holding Companies tax regime from April 2022	Tax	0	0	-5	-10	-15	-20	High

	Other measures								
31	Air Passenger Duty: introduction of a new reduced domestic band and ultra-long haul distance band	Tax	0	0	-35	-35	-30	-30	Medium-Low
32	Capital Gains Tax: increase property disposal payment window from 30 to 60 days	Tax	-60	-5	-5	-5	-5	-5	Medium
33	Starting rate for savings tax band: maintain at £5,000 for 2022-23	Tax	0	0	+5	+5	+5	+5	Medium-Low
34	Adult ISA subscription limit: maintain at £20,000 for 2022-23	Tax	0	0	+5	+10	+15	+20	Medium-Low
35	Carbon Price Support rates: maintain in 2023-24	Tax	0	0	-15	-15	-10	-10	Medium
36	Car fuel benefit charge: uprate by CPI in 2022-23	Tax	+5	+5	+5	+5	+5	*0*	Low
37	Van benefit charge: uprate by CPI in 2022-23	Tax	0	+5	+5	+5	+5	+5	Low
38	Aggregates Levy: freeze in 2022-23	Tax	0	-25	-25	-25	-25	-25	Low
39	Tobacco Duty: increase hand rolling tobacco duty by an additional 4% and minimum excise duty by an additional 1% in 2022-23	Tax	+15	+25	+25	+25	+25	+25	Medium-High
40	Moving back the Pension Credit to Housing Benefit merger date from April 2023 to April 2025	Spend	0	0	+5	+50	+95	+125	Medium-Low
41	Net Pay pension schemes: 20% top-up for eligible individuals on contributions from April 2024	Spend	0	0	0	0	-10	-15	Medium
42	BBC commercial arm borrowing limit: stepped increase from £350m to £750m	Spend	0	-15	-45	-40	+20	+95	Medium
43	HM Land Registry: increase caseworker capacity	Tax	-5	+65	+50	+35	+35	+40	Medium
44	Removing cross-border group relief	Tax	*	+5	+5	+5	+5	+5	Medium
45	Residential Property Developer Tax: 4% rate	Tax	0	+200	+215	+225	+235	+250	Medium-High
	Previously announced								
46	State Pension and Pension Credit: uprate with Double Lock in 2022-23	Spend	0	5415	5780	6115	6455	6730	Medium-Low
47	Economic Crime (Anti-Money Laundering) Levy	Tax	0	95	100	100	105	105	Medium-High
48	Freeports (reliefs on Stamp Duty, Enhanced Capital Allowances, Structures and Buildings Allowance, NICs and Business Rates)	Tax	-5	-25	-40	-60	-75	-65	High
49	Self-Employment Income Support Scheme fifth grant: design choices relating to the financial impact declaration	Spend	-170	20	0	0	0	0	Medium-High
50	Business Rates: Covid-19 additional relief fund	Tax	-1555	35	-10	0	0	0	Low
51	Business Rates: ruling out Covid-19 as a Material Change in Circumstance	Tax	-485	0	0	0	0	0	Medium-Low
52	Right to Buy: changes to rules under which Local Authorities can retain and spend receipts from Right to Buy sales	Spend	245	250	195	90	0	-30	Medium-High
53	Super-deduction: extension to background plant and machinery	Tax	-115	-120	-35	5	15	20	High
54	Real Estate Investment Trusts: amendments	Tax	0	-5	-5	-5	-5	-5	Medium
55	Extension of eligibility for bereavement benefits to cohabitees with children	Spend	0	-120	-30	-25	-25	-20	Medium
56	DWP Disability Green Paper: measures	Spend	0	15	40	15	-15	-5	Medium-High
57	Universal Credit: reintroduce Minimum Income Floor from 1 August 2021	Spend	-10	-15	-20	0	0	0	Medium-Low

58	Reform of penalties for late submission and late payment of tax for Income Tax Self Assessment: change to implementation date	Tax	0	0	0	-15	+30	+80	Medium-High
59	Making Tax Digital for Income Tax Self Assessment: change to implementation date and digital prompts	Tax	0	0	-25	-195	-205	-15	High
60	Income Tax: basis periods reform for the self-employed from April 2024 with transition year in 2023-24	Tax	0	0	+25	+820	+510	+360	Medium-High
61	Notification of uncertain tax treatment: changes to scope	Tax	-5	-10	-15	-15	-20	-15	Medium-High
62	Access to benefits for arrivals under the Afghan Relocations and Assistance Policy and the Afghan Citizens Resettlement Scheme	Spend	-5	-5	-5	-5	*	*	Medium-Low
63	Clamping down on promoters of tax avoidance	Tax	+5	+25	+30	+25	+25	+20	High
64	Public Service Pensions Remedy (McCloud)	Spend	0	0	-585	-740	-610	-550	Very High
	Financial Transactions								
65	Public sector net borrowing impact of changes to financial transactions and guarantees	Spend	-25	-20	+5	*	*	-5	Medium
	Total policy decisions [8]		**-2,985**	**-25,345**	**-21,855**	**-9,780**	**-7,455**	**-7,705**	
	Total spending policy decisions [8]		-715	-38,040	-34,020	-23,885	-21,730	-22,670	
	Total tax policy decisions [8]		-2,270	+12,695	+12,165	+14,105	+14,275	+14,965	

*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] Includes funding for the remaining response to Covid-19 in the immediate term and for cost pressures as a result of the updated inflation forecast.

[4] Adjusted to reflect updated estimates of the spending profiles for planned major capital programmes and projects.

[5] Gross yield reflects total direct tax raised from the Health and Social Care Levy.

[6] Net yield reflects total amount available to allocate after accounting for (1) the reduction in yield due to passthrough to wages by employers and (2) compensation for the additional cost to public sector employers.

[7] Business rates are deductible for corporation tax and income tax self-assessment. Increased business rates relief reduces the amount of business rates paid and so increases these other tax receipts.

[8] Totals may not sum due to rounding.

Policy decisions not on the Treasury scorecard

A.7 Our forecasts include the effect of three policy decisions that the Treasury has chosen not to present on its scorecard:

- **Correcting tariff code legislation.** This measure corrects an error in the UK global tariff legislation whereby tariffs for certain commodity codes were erroneously set to zero (they were either missing or omitted). HMRC's systems subsequently applied the intended tariff rates, but since the legislation did not specify the applied rates there was no legal basis for traders to be charged. As such they are entitled to full reimbursements for payments made. The correcting of the legislation raises yield relative to the erroneous zero-tariff baseline.

- **Further delay in introducing full customs checks.** The Government has announced that the introduction of full customs checks on goods arriving from the EU will be delayed by a further six months, to 31 December 2021.

- **Other spending decisions.** These primarily consist of updated departmental plans, as set out in the Treasury's *Public Expenditure Statistical Analyses* publication in July, and our assumptions regarding underspending relative to the large increases in departmental budgets announced in the Spending Review.

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
Correcting tariffs codes	Tax	-10	20	20	25	25	25	Low
Delay in introducing customs checks	Tax	-40	5	0	0	0	0	Medium
Other spending decisions	Spend	3,265	4,270	3,245	1,365	1,485	1,560	N/A
Direct effect of Government decisions		**3,215**	**4,295**	**3,265**	**1,385**	**1,510**	**1,580**	

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

Policy costings and uncertainty

A.8 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.9 Using this approach, we have judged 8 scorecard measures to have 'high' or 'very high' uncertainty around the central costing. Together, these represent 12 per cent of the scorecard and non-scorecard measures by number, or 13 per cent of the tax and AME measures we have certified (as we do not certify the cost of DEL spending measures). They represent 5 per cent of certified measures by absolute value.[3]

Health and social care levy

A.10 On 7 September, the Government announced the introduction of a new health and social care levy of 1.25 per cent each on employees, employers and the self-employed. It will take effect from 2023-24 and revenues from it will be ringfenced to support health and social care spending. The Government also announced that in 2022-23, while HMRC's systems are readied to administer the new tax, the main and additional rates of Classes 1, 1A, 1B and 4 of NICs will be temporarily increased by 1.25 per cent. Individuals over State Pension age with qualifying earned income will not be affected by the NICs increase in 2022-23, but will be liable to pay the levy from 2023-24 onwards.

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

A.11 The net effect of the new levy on the public finances will differ materially from the revenue it raises directly because the cost of the employer element of it is expected to be passed through quite quickly into lower pay for employees in the private sector but not in the public sector, because the Treasury is compensating employers with higher RDEL budgets. Here we set out what is factored into the direct scorecard costing, how that relates to the revenue we expect to be raised directly by the levy itself, and the wider impact on income taxes and NICs of the pass-through to wages and salaries.

A.12 The levy will have further indirect effects on the public finances that we have not isolated and quantified because they are wrapped up in our broader judgements about the overall effects of the Budget and Spending Review on the economy. These include increases in debt interest and welfare spending from pass-through to inflation, short-term reductions in corporation tax from costs absorbed in lower profits until pass-through to real wages is complete, and reductions in VAT and duties associated with lower household consumption as a result of lower take-home pay. On top of these effects, the Treasury's decision to compensate public sector employers comes at a cost of around a tenth of the revenue it is expected to raise.

Scorecard costing

A.13 The direct scorecard yield from the measure rises from £16.5 billion in 2022-23 to £17.9 billion in 2026-27. On this basis, it is an even larger tax rise than the £17.2 billion in 2025-26 that was raised by the 6 percentage point increase in the main rate of corporation tax that the Chancellor announced in his March 2021 Budget.

A.14 The tax base is all income subject to NICs from either employment or self-employment. It is estimated using HMRC's personal tax model, based on data from the 2018-19 Survey of Personal Incomes (SPI), and projected forward using determinants drawn from our economy forecast. The main uncertainties specific to this dataset relate to sampling error in the SPI, and errors projecting the data forward to the scorecard period. But these are small relative to the uncertainties around our forecast for income growth over the next five years.

A.15 The costing starts with an estimate of the 'static' impact of the measure – what it would raise if it did not prompt any behavioural response. It reflects the increase in receipts from the higher rate on employee, employer and self-employed NICs in 2022-23 and the imposition of the levy from 2023-24 onwards (including on those over State Pension age). This is adjusted for an interaction with the employment allowance, which reduces employer NICs liabilities and consequently reduces the yield of the levy slightly, as well as for a small increase in universal credit and housing benefit spending as a result of lower net incomes. The static yield of the levy is £18.1 billion in 2023-24 rising to £19.9 billion in 2026-27.

A.16 The scorecard impact of the measure includes modest taxable income elasticity-based behavioural effects. These link the change in the marginal and average tax rates to income subject to NICs declared based on past experience and various academic studies. This can reflect genuine changes in income (for example due to changes in hours worked), but also avoidance-style behaviour that reduces declared taxable income by other means. As there are relatively limited opportunities to adjust taxable income to avoid NICs (and thus the levy), these impacts are modest. A small effect is also included for tax-motivated incorporations and for bonus payments being brought forward from the 2022-23 financial year into 2021-22. These behavioural effects reduce the static yield of the levy by £1.3 billion in 2023-24 rising to £2.1 billion in 2026-27. Table A.4 shows the static yield of the levy, these 'direct' behavioural effects, and the final scorecard yield reported in Table A.2.

Table A.4: Scorecard yield from NICs and the health and social care levy

	Forecast				
	£ million				
	2022-23	2023-24	2024-25	2025-26	2026-27
Static yield	17,515	18,135	18,535	19,150	19,945
Less direct behavioural effect	-1,010	-1,330	-1,630	-1,860	-2,070
Post-behavioural	**16,505**	**16,805**	**16,905**	**17,290**	**17,875**

Implications of pass-through to real wages

A.17 In addition to the direct behavioural effects described above, our forecast reflects the impact of this policy on economy-wide determinants. The largest of these relates to the incidence of the employer element of the tax. As described in Box 2.1, we assume this element is passed through entirely on to real wages in the medium term, with 80 per cent via nominal wages rising more slowly than would otherwise have been the case and 20 per cent via higher prices. (In the first year we assume that 20 per cent is absorbed temporarily in lower profits.)

A.18 To quantify the effect of this pass-through to private sector wages on all income taxes, we have used a simple ready-reckoner based on the effective tax rate of each tax line in our forecast multiplied by the reduction in wages and salaries attributable to the pass-through to wages in the private sector. Because the thresholds for income tax, NICs, the health and social care levy and the apprenticeship levy are not indexed, only the nominal wage element affects the overall receipts from these taxes. Our pass-through assumptions result in a 0.5 per cent reduction in nominal wages in the private sector in 2022-23, rising to 0.6 per cent in the following years, which translates into a 0.5 per cent reduction on whole economy wages and salaries (increasing to around £6 billion a year).

A.19 As Table A.5 shows, pass-through to lower wages results in a £2.1 billion loss of receipts on all employment income taxes in 2022-23, rising to £2.9 billion in 2026-27. 57 per cent of the loss in receipts hits income tax and 42 per cent reduces NICs (with less than 1 per cent hitting the apprenticeship levy).

Table A.5: The impact of wage pass-through on employment income taxes

	Forecast				
	2022-23	2023-24	2024-25	2025-26	2026-27
Reduction in wages and salaries (£ million)	**-4,375**	**-5,550**	**-5,680**	**-5,865**	**-6,075**
Effective tax rates (per cent)					
Income tax	26.7	26.8	27.2	27.5	27.7
NICs	20.0	20.0	20.2	20.3	20.2
Apprenticeship levy	0.4	0.4	0.4	0.4	0.4
Reduction in total receipts (£ million)	**-2,060**	**-2,620**	**-2,720**	**-2,825**	**-2,935**
of which:					
Income tax	-1,170	-1,490	-1,545	-1,615	-1,680
NICs	-875	-1,110	-1,150	-1,190	-1,230
Apprenticeship levy	-20	-25	-25	-25	-25

Freeports

A.20 In his March 2021 Budget, the Chancellor announced the eight sites in England that had been successful in bidding for 'freeport' status: East Midlands Airport, Felixstowe & Harwich, Humber, Liverpool City Region, Plymouth and South Devon, Solent, Teesside and Thames. The Government also intends to introduce freeports in each of Scotland, Wales, and Northern Ireland.[4] The first wave of freeports are due to begin operating from November.

A.21 A freeport is a designated area within a country where the prevailing rules around customs procedures and duties are suspended, often in conjunction with other tax reliefs. They aim to create a zone in which lower direct and indirect costs of doing business will generate additional activity, investment and jobs.[5] The Government's objectives for its freeports are to *"establish Freeports as national hubs for global trade and investment across the UK […] promote regeneration and job creation […and] create hotbeds for innovation"*.[6]

A.22 Imports into England's freeports will be exempt from customs duties or import VAT until the goods depart the freeport. This allows for 'tariff inversion' where importers can choose to pay duties on intermediate goods individually or, after assembly in the freeport, on the final product at a lower tariff. The freeports also benefit from several tax reliefs, including:

- **full relief from stamp duty land tax** on commercial transactions within a freeport, available until September 2026;
- **full business rates relief**, available for up to five years, until September 2026;
- **relief from employer NICs** on the first £25,000 a year of employees' salaries, initially available from April 2022 to March 2026, at which point it will be reviewed;

[4] Some of the tax reliefs available within the freeports being established in England come under devolved competency, so require agreements with the devolved administrations if they are to be replicated in Scotland, Wales and Northern Ireland.
[5] The World Bank, *Special Economic Zones: An operational review of their impacts*, 2017.
[6] HM Government, *Freeports Consultation*, February 2020.

- **an enhanced capital allowance of 100 per cent for investment in plant and machinery for up to five years**, available until September 2026; and

- **an enhanced structures and building allowance of 10 per cent for ten years**, available until September 2026.

A.23 Freeports are expected to cost an average of £50 million a year from 2022-23 onwards, with the largest costs associated with employer NICs and business rates relief. All three aspects of the costings that underpin this figure are uncertain:

- **Data uncertainty**. This is relatively high despite the costing using administrative data. There is uncertainty around the applicability of the data to the specified reliefs and the aggregated nature of much of the underlying information. The quality of available data is also uneven across the different tax aspects of the policy.[7]

- **Modelling uncertainty.** The approach used builds the costing up tax-by-tax rather than by individual freeport. This made best use of the available data, but made ensuring consistency in results across freeports and assessing the interactions across tax reliefs challenging. The modelling applies lessons learned from the initial estimates of the costs of business rates relief in enterprise zones introduced across England over the past decade to reflect the revealed optimism bias in past costings (see Chart A.1).

- **Behavioural uncertainty.** This is the most important and most uncertain aspect of the costing. Freeports are designed to alter businesses behaviour in terms of the location of activity, and – it is hoped – the overall volume of activity too. Costs associated with different tax reliefs will be determined by the degree to which they are taken up. This is subject to uncertainties in respect of each relief (the value of which differs) and each location (where geographical context will differ[8]). It is also uncertain how the behavioural response to the package of reliefs in aggregate might differ from the sum of its parts when viewed individually. There is also broader uncertainty around how much of the economic activity that takes place within a freeport will have been displaced from other UK regions and how much is genuinely additional.

Freeports and additionality

A.24 The impact of freeports on economic activity depends on the degree to which tax reliefs are taken up, and the degree to which that take-up is additional to the activity that would have taken place in the absence of those reliefs (either in the freeport zone or elsewhere in the country). On the former, Chart A.1 compares the estimated costs of the different enterprise zone announcements between 2011 and 2015 with the actual cost.[9] The costs are around a quarter of the original estimates, suggesting much smaller impacts than initially hoped. As noted, the costing has tried to learn the lessons from this past under-performance.

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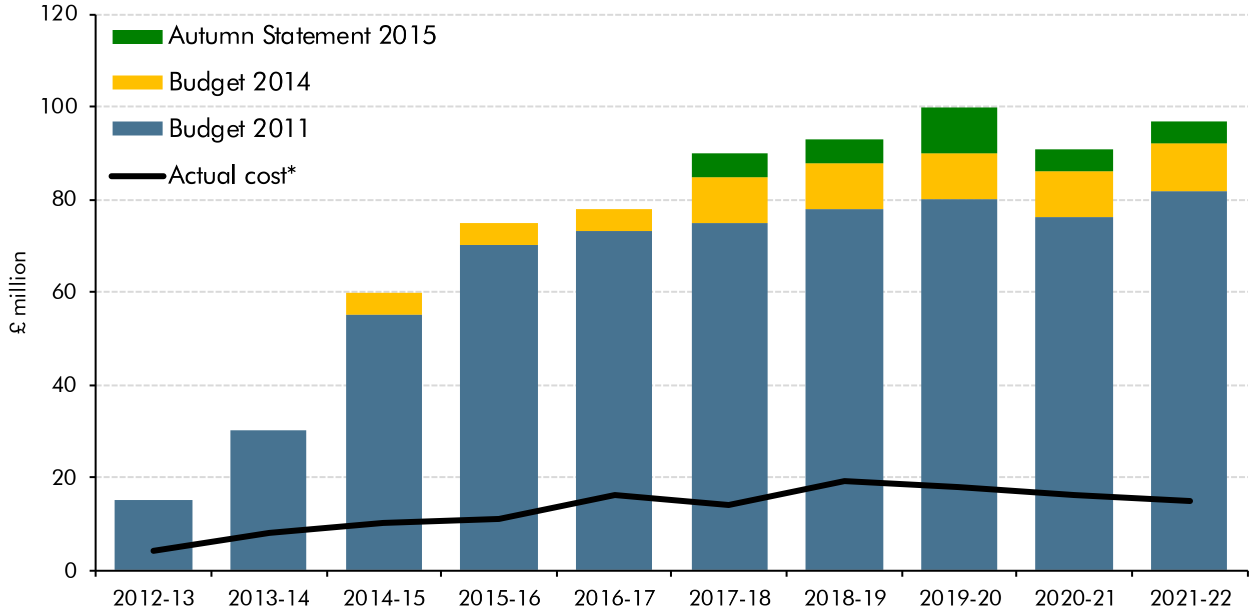
[7] For example, SDLT data on properties and transactions is both geolocated and precise, while that associated with tariffs and customs is highly aggregated and less precise.
[8] For example, in respect of the availability of similar schemes in other parts of the country, such as inward processing relief.
[9] These enterprise zones were initially launched in the Coalition Government's March 2011 *Plan for Growth*, with the promise of "*superfast broadband, lower taxes and low levels of regulation and planning controls*" to support investment across the regions.

Chart A.1: Estimated cost versus actual cost for enterprise zones



* 2020-21 and 2021-22 actual costs taken from local authorities' own estimates recorded in NNDR1 returns.
Source: HMT, OBR

A.25 As regards additionality, an evaluation of the number of jobs created by enterprise zones carried out by the Centre for Cities found that "*jobs growth has been underwhelming*", that a significant number were displaced from local areas and from elsewhere in the UK, and that "*the jobs created were mainly in low-skilled local service activities*".[10]

A.26 More broadly, experience of enterprise zones around the world points to little difference in performance between cities with zones and those without, with stronger determinants of performance being existing infrastructure and transportation links.[11] This suggests that it is those other factors rather than the enterprise zone reliefs themselves that are key to determining levels of activity and that the reliefs act more as a reward than an incentive.

A.27 International evidence also suggests that enterprise zones tend to be more effective in developing countries, where tariff and non-tariff barriers to trade tend to be higher, making the potential gains greater.[12] Tariff rates in the UK are relatively low, with free-trade agreements covering two-thirds of goods imports (including via the new Trade and Cooperation Agreement with the EU) and low rates applied to other imports under the new UK Global Tariff. This means there is little scope to benefit from tariff inversion.[13] Furthermore, the UK scores highly on international comparisons of the performance of trade logistics, suggesting limited scope for gains on that front too.[14]

A.28 Nevertheless, the tax incentives available within England's freeports are more generous than those in the enterprise zones over the past decade, which did not include either stamp duty

[10] Centre for Cities, *In the Zone: Have enterprise zones delivered the jobs they promised?*, 2019.
[11] UN, *World Investment Report 2019: Special Economic Zones: Key Messages and Overview*, 2019.
[12] UN, *World Investment Report 2019: Special Economic Zones: Key Messages and Overview*, 2019.
[13] Holmes and Larbalestier, *Two key things to know about Freeports*, UK Trade Policy Observatory, 2021.
[14] The UK ranked 9th out of 160 countries in the World Bank's *Logistics Performance Index*, which is a worldwide survey of operators on the logistics 'friendliness' of countries.

land tax or employer NICs reliefs, increasing incentives for both displacement of activity from other locations and for truly additional activity. In this context, the Treasury has taken steps to try to reduce displacement through the bidding process, requiring bidders to demonstrate how they would generate additionality and minimise displacement from other locations.

A.29 But given historical and international evidence, we have assumed that the main effect of the freeports will be to alter the location rather than the volume of economic activity, so the costs have been estimated on the basis of activity being displaced from elsewhere. To the extent that activity is genuinely additional, it will be revealed in GDP and receipts data over time, though given the small scale relative to the whole economy, such effects would probably be difficult to discern even in retrospect.

Dividends tax rate increase

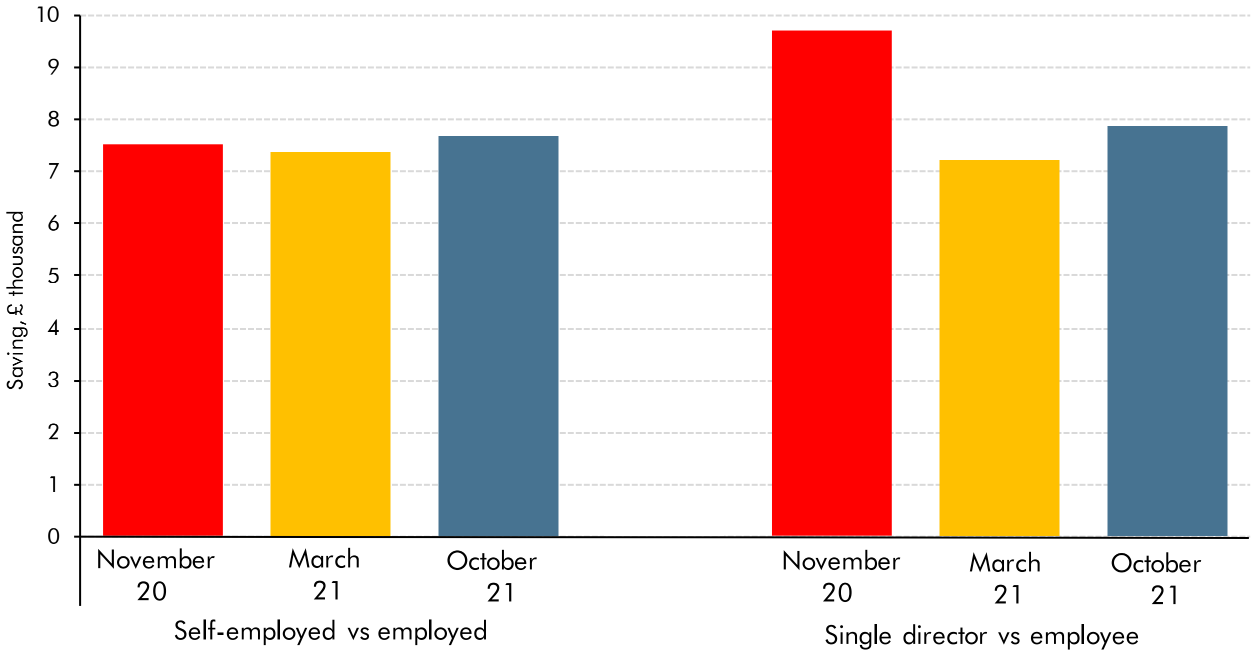
A.30 Chart A.2 shows the tax saving in 2025-26 for a self-employed person or single director earning £100,000, relative to the tax they and their employer would pay if they worked as an employee – and shows how that has evolved as a result of tax policies announced this year.[15] These tax savings are one of the factors that lead some people to choose these employment statuses:

- The movement in the saving from being **self-employed** are relatively small, with little change resulting from March 2021 Budget measures and a modest increase resulting from this Budget (as a result of not being liable to the employer element of the new health and social care levy, only the self-employed element).

- The changes in the saving for **single directors**, however, are more material – falling by 26 per cent as a result of March Budget measures, then rising back by 9 per cent as a result of this Budget. The fall due to the March Budget reflects the increase in the main rate of corporation tax, tempered for someone earning this much by the reintroduction of the small profits rate. The 1.25 per cent dividend tax rise in this Budget reduces the tax saving from being a single director, but the effect of that is more than offset by the health and social care levy, which raises the overall tax paid on employee earnings by more (because of its employee *and* employer elements). This Budget therefore reverses around a third of the reduction in the tax incentive to incorporate (at this level of earnings) that had been achieved as a result of the March Budget measures.

[15] These calculations assume the individual has only one source of income. The deduction of employer NICs means that less of an employee's total compensation is made up of their wage, thereby paying less income tax but more NICs than the self-employed. Company directors are assumed to withdraw profits in the most tax efficient way, paying themselves a salary up to the primary threshold for NICs, and taking the rest as dividends, all in the same year. These examples all reflect taxpayers outside Scotland. In Scotland higher tax rates at the top-end of the distribution create a slightly larger incentive to incorporate.

Chart A.2: Tax saving on £100,000 of income in 2025-26 relative to an employee: latest policy settings versus March 2021 and November 2020



Public service pensions remedy ('McCloud')

A.31 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 sets out how the Government will address the age discrimination associated with the transitional protection that was offered to scheme members close to retirement, but not to younger scheme members. Although announced prior to the March Budget, the Government chose not to score the consequences of the remedy measures at that time given the extent of uncertainty over how individual schemes would implement the changes (see Box 3.5 of our March 2021 *EFO*). That uncertainty has now receded sufficiently to be able to estimate the medium-term consequences for schemes.

A.32 There are three main elements to the costing, which costs an average of £0.6 billion a year between 2023-24 and 2026-27: (i) the remediation payments themselves; (ii) the impact of the remedy on tax receipts; and (iii) the impact on member contributions. We deem the costing to be highly uncertain. The main uncertainties relate to:

- **Modelling uncertainty.** The modelling of remediation payments is done at a scheme level, with assumptions varied as appropriate across schemes. It relies on several key assumptions about the timing of retirements and the remediation options that will be most beneficial and therefore taken up by scheme members at that point. Information on the impact on member contribution rates was only available for two schemes, though the impacts in respect of other schemes are expected to be limited. The tax costing relates to changes in accrual rates between legacy and reformed schemes, which affects annual allowance charges, with an expectation that there will be more cases in which members will be due refunds from HMRC on previous charges due to the remedy than cases where new or higher charges result. The modelling of this element is also uncertain, for example around the effect of salary progression within schemes. We assign the modelling uncertainty as being 'very high' and the most important element in determining overall uncertainty for the costing.

- **Data uncertainty.** The costing for the remediation payments relies on information from the Government Actuary's Department's (GAD) scheme valuations in respect of 2016. This generates particular uncertainty around commutation rates and the resulting estimates of lump sum payments in respect of the remedy. GAD's work on 2020 scheme valuations is underway and is likely to lead to updates to the estimated cost of the remedy once it is complete. The data used for the tax element is also highly uncertain, relying on limited information on average salaries in different schemes and some initial estimates of the number of unprotected annual allowance payers.

- **Behavioural uncertainty.** We assume that individuals will choose to take the benefits of greatest value, but there is some uncertainty around how they choose to take their benefits, for example between lump sum payments and ongoing pension benefits.

Other highly uncertain measures

A.33 The other measures subject to a 'high' or 'very high' uncertainty rating are:

- **Alcohol duties review.** This measure shifts the taxation of alcohol to a system in which duty is paid by reference to the product's final alcohol by volume (ABV). It also harmonises tax rates for different types of beverages, reducing the number of main rates from fifteen to six. Duty charged on high-strength wine and cider will be raised, but it will be lowered for lower strength alcohol products, with an additional benefit to draught products in the on-site trade. This costing receives a 'high' behavioural uncertainty in respect of the degree to which traders, manufacturers and consumers respond. There is uncertainty around the volumes of purchases that traders will choose either to bring forward or to delay to take advantage of a lower duty rate. Restructuring duty bands will incentivise some manufacturers to reformulate products by reducing the ABV to reduce duty paid, the scale of which is also uncertain.

- **'Clamping down on promoters of tax avoidance'.** This measure introduces new penalties on UK entities that support offshore promoters of tax avoidance. It grants HMRC the power to freeze suspected promoters' assets and to wind up companies involved in promoting avoidance. As is common with most costings of anti-avoidance measures, there is a high degree of uncertainty around the quality of data and the size of the potential behavioural response, which as ever is judgement-based. We are, however, able to draw on the evidence gathered from evaluations of costings of similar previous measures when making those judgements. For this measure there is particular uncertainty around how much of a deterrence the powers introduced by this measure will prove to be. This costing receives a 'high' uncertainty rating, with data and behaviour both rated 'high'.

- **Taxation of asset holding companies in alternative fund structures.** This measure introduces a new tax regime for asset holding companies, effective from 1 April 2022. Companies meeting specific qualifying criteria can reduce their corporation tax liability, based on the principle that the investor rather than the asset holding company should be liable. There is a 'high' degree of uncertainty relating to both the data (the identification of qualifying companies relies on judgement) and the modelling (which uses several hard-to-verify assumptions).

- **'Super-deduction: extension to background plant and machinery'.** This measure extends the super-deduction announced in the March 2021 Budget, which allows companies to claim a 130 per cent deduction on new plant and machinery expenditure. The main uncertainty relates to behaviour since, as the measure is temporary, it provides firms with a strong incentive to bring forward investment from future periods to take advantage of the generous allowances. The costing receives a 'high' rating, with behaviour rated 'very high'.

- **Making tax digital for income tax self-assessment and transactional risking.** This measure has two elements. First, the Government's plans for extending HMRC's making tax digital (MTD) initiative to self-assessed income tax has been pushed back by a year, to April 2024, to allow HMRC time to change its systems to accommodate the introduction of the health and social care levy. As with previous MTD costings, there is uncertainty in all aspects of the costing, particularly the effectiveness of the software in reducing taxpayer errors, which generates the yield. Second, HMRC will use the MTD platform to provide risk-based feedback and prompts to taxpayers, which is expected to improve compliance. This is also a highly uncertain costing. It relies on assumptions drawn from trials of similar interventions, but it is unclear how applicable the evidence will be in the context of being delivered through MTD software. The costing is sensitive – in both directions – to relatively small changes in assumptions about the proportion of prompts that are successful and how much they yield. We will report on progress in respect of these initiatives at future forecasts.

- **Income tax on dividends: increase tax rates by 1.25 percentage points.** This measure increases the rate of tax paid on dividend income by 1.25 percentage points for each tax band. We have assigned this measure a 'high' uncertainty rating, mainly relating to the potential scale of the behavioural response, and in particular the degree of forestalling (the bringing forward of dividend payments) in order to avoid the tax rise, which is not due to come in until April 2022 (it was announced in early September).

Longer-term uncertainties

A.34 For most policy costings, the five-year scorecard period is sufficient to give a representative view of the long-term cost or yield of a policy change. Typically, that effect is either zero – because the policy has only a short-term impact that has passed by the end of the scorecard period – or it would be reasonable to expect the impact at the end of the forecast to rise broadly in line with nominal growth in the economy thereafter.

A.35 The measure **'income tax: basis periods reform for the self-employed'** relates to tax rules for partners and the self-employed, and the timing of when their income is assessed by HMRC. It effectively brings forward the point at which profits are assessed for tax purposes, boosting receipts by £0.8 billion in 2024-25, and generating £1.8 billion in total during the scorecard period, and by diminishing amounts through to 2028-29 (based on the policy's five-year 'transition period'). It does not affect the underlying amount of profits that will be taxed, and indeed by removing the possibility of 'overlap relief' going unclaimed, reduces revenue overall. This measure therefore generates the 'fiscal illusion' of raising revenue when in fact it in the long term it reduces it.

Box A.1: The long-term cost of the social care cap and floor reform

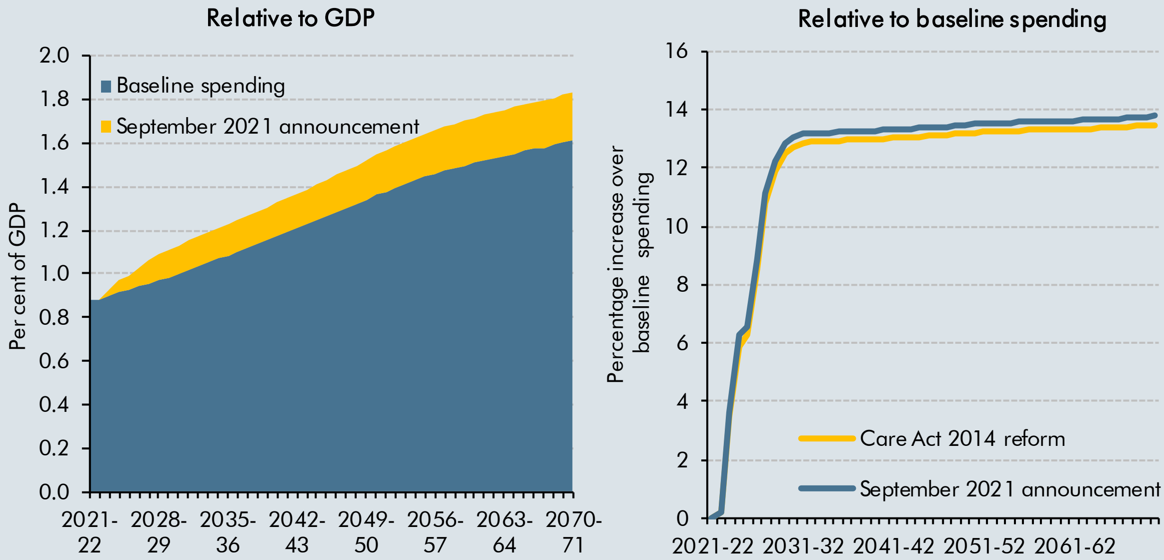
On 7 September 2021, the Government announced a package of reforms to the funding of social care, including a cap on the amount that anyone in England has to spend on adult social care over their lifetime. The cap will be set at £86,000 and take effect from October 2023.[a] The cap operates in a similar way to that proposed by the Dilnot Commission in 2011, though it is higher than the original £35,000 proposal (around £46,000 in 2023-24 prices).[b] It is, however, similar (after accounting for inflation) to the £72,000 cap set in the Care Act 2014, which was meant to apply from April 2016 but was dropped before it had been implemented.[c]

The reforms also include a means-test on local authority contributions to care costs for individuals with assets below £100,000 (known as the 'upper capital limit'), with no requirement to contribute to costs at all for those with assets below £20,000 (the 'lower capital limit'). This is a large increase relative to the current system, in which the lower and upper capital limits are £14,250 and £23,250 respectively,[d] but the reforms retain the single upper capital limit structure already in place. By contrast, the 2014 reform would have introduced a differential system, with upper capital limits set at £27,000 (£32,000 in 2023-24 prices) for those in domiciliary care and £118,000 (£139,000 in 2023-24 prices) for those in residential care.

Our 2013 and 2018 *Fiscal sustainability reports* showed how the costs of these reforms rise steadily over the longer term. They start relatively low because few individuals reach the lifetime costs cap in the initial years of implementation. It takes several years for the system to reach steady state in terms of numbers of people having their costs covered by the state. The left panel of Chart A presents a provisional long-term profile of the cost of the latest reforms relative to a baseline long-term projection of social care spending, which suggests these reforms will cost around ¼ per cent of GDP a year in the long term, little changed from the 2014 reform.

At the margin, the September 2021 announcement is slightly more expensive than the 2014 reform, adding 13.8 per cent to baseline spending in steady state, compared to 13.5 per cent under the 2014 Act (right-hand panel of Chart A). This is due to the single upper capital limit, which entails slightly more people being entitled to means-tested support (and people with modest assets above the limit receiving means-tested support at an earlier point of asset depletion). But there are still some details of the reforms to be finalised, and so we will consider their long-term implications more closely in our next *Fiscal sustainability report*.

Chart A: Long-term cost estimate of social care funding reforms as a share of GDP and relative to baseline spending



Sources: DHSC, OBR

[a] HM Government, *Build back better: our plan for health and social care*, Command Paper CP506, September 2021.

[b] Commission on Funding of Care and Support, *Fairer care funding*, July 2011.

[c] Department for Health, *The Care Act 2014: consultation on draft regulations and guidance to implement*.

[d] However, it is a fifth lower than the original Dilnot-proposed limit in real terms (£100,000 in 2011, equivalent to £129,000 in 2023-24 prices).

Behavioural responses to changes in tax rates and thresholds

A.36 Policy costings estimating the cost or yield of a new tax measure will typically be broken down into three sections: (i) an estimate of the size of the underlying tax base that will be affected by the measure; (ii) a static costing, which is the difference between the amount of tax raised by the existing and new regimes when applied to the existing tax base; and (iii) an estimated behavioural effect, which aims to capture the way individuals and businesses change their actions in response to the policy – and thereby change the tax base to which the new regime will be applied. These changes to tax bases often affect more taxes than just the one that is the subject of the measure, so behavioural costs or yields can be large relative to the static cost or yield of the policy change.

A.37 The scale of the behavioural adjustment depends on the relative ability and willingness of individuals and businesses to respond. It is captured via behavioural elasticities that compare the responsiveness of taxpayers to a given change in the tax rates they face. For some changes these can be based on econometric studies carried out by HMRC or academic institutions based on similar policy changes in the past. For others, judgement has to be relied upon if there is no directly comparable historical or international evidence.

A.38 Chart A.3 shows the percentage of the cumulative five-year static costing that remains once behavioural responses have been factored in for selected tax policy announcements from the March 2021 Budget and from this Budget and Spending Review. It shows that some measures are expected to result in proportionately little behavioural response. For example, the demand for fuel is very inelastic with respect to its price, resulting in only a marginal reduction in the static cost of freezing duty rates via increases in fuel purchases. But for some measures the expected behavioural response offsets much of the static effect:

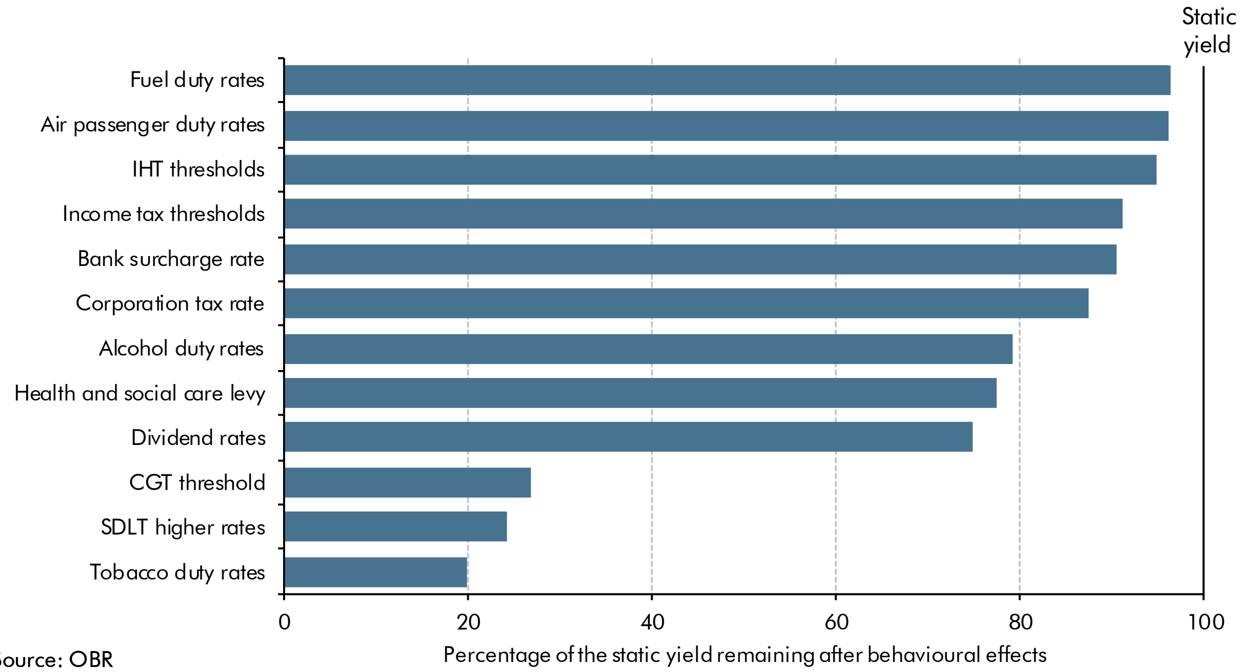
- **Tobacco duty.** At the extreme among these examples, increases in tobacco duty raise remarkably little relative to the static costing. The rate rises announced in this Budget raise £25 million a year, relative to a static yield of £130 million a year. Indeed, evidence suggests cigarettes – the largest component of the tax base – have been past the peak of the 'Laffer curve' – the tax rate that maximises tax revenues – for several years. As this is partly due to smokers responding to higher tax rates by switching from cigarettes to hand-rolled tobacco products, tobacco duty overall is not yet at this stage.

- **Stamp duty land tax: higher rates on additional properties.** A 3 per cent surcharge on additional property purchases (second homes and buy-to-let properties) was introduced in April 2016. It has been raised to 4 per cent in this Budget. HMRC has analysed the response to its introduction and found that it was strong. The costing for the latest rate rise assumes that around three-quarters of the static yield will be lost.

- **Capital gains tax.** This is another tax that is arguably close to the peak of its Laffer curve, once the consequences of behavioural responses to rate changes for stamp duty receipts in particular are factored in. Like stamp duty and dividends tax, it is also prone to time-related behavioural responses, such as the 'forestalling' (bringing forward) or 'stalling' (delaying) of activities in response to pre-announced tax changes.

- **The new health and social care levy.** This has relatively modest direct behavioural effects, reducing the static costing by around a tenth. But once we include the indirect behavioural effects of the policy – employers passing through higher costs into lower wages – the downward adjustment increases to around a quarter (see Table A.5).

Chart A.3: Scale of behavioural response for selected tax policy changes



Source: OBR

Update on previous measures

A.39 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.

Recostings of pandemic-related support measures

A.40 The cumulative cost of the Government's pandemic-related support measures has been revised down to £315 billion from the £344 billion we estimated in our March 2021 forecast (which in turn was higher than our November 2020 estimate of £337 billion). Table A.6 shows the main changes since March. They include:

- **A £16.5 billion reduction due to pandemic-related DEL budgets being underspent** by more than expected, largely relating to the NHS. £10.5 billion of this relates to spending in 2020-21, while £6 billion relates to 2021-22. As described in Chapter 3, these latest upward revisions to underspending leave our estimate of overall underspending relative to RDEL plans across 2020-21 and 2021-22 at a historically unprecedented £44 billion.

- The **costs relating to government-guaranteed loan schemes have been revised down by £5.2 billion** to £23 billion overall.[16] Costs for 2020-21 are £6.3 billion lower, matching the £20.9 billion initial estimate published by the ONS, but £1.1 billion higher in later years. The loans are guaranteed by Government, so any that are written off generate a cost to the Exchequer. The largest component of the drop since March is a downward revision to expected loss rates, with a lower value of loans issued and a change in discounting methodology for most of the remainder (see Chapter 3). Since the costs score in the year that the guarantees are issued rather than when the default takes place, the estimate will continue to be revised for several years (see Annex B).

- **Net costs relating to the fourth and fifth round of grants for the Self-Employed Income Support Scheme (SEISS) were £4.4 billion lower than expected**. The grants themselves were £5.0 billion lower than expected in 2021-22, with the tax paid on those grants correspondingly lower in 2022-23 (lagged due to being paid via self-assessment). Take-up rates have been lower than expected, continuing the progressive decline from one grant to the next, and reflecting the faster than expected economic recovery. The fifth grant included a financial impact declaration that might have proved more of a deterrent to claims than assumed. The gross cost across all five grants has been £28 billion (see Chapter 3).[17]

- The **net cost of the Coronavirus Job Retention Scheme (CJRS) has been revised down by £5.4 billion** since our March forecast. This reflects near-final outturn data for the AME cost of the scheme, and has two components: (i) the cost for 2020-21 is £3.1 billion lower and relates to an upward revision to the amount of tax due on CJRS payments; and (ii) the cost for 2021-22 has been revised down by £2.3 billion, driven primarily by fewer furloughed employees than we assumed. The gross AME cost of the CJRS is £69 billion (see Chapter 3).[18]

- The **extension of the stamp duty holiday on transactions up to £500,000 from March 2021 to 30 June 2021 is due to cost £0.9 billion more in 2021-22** than we expected in March. This reflects higher than expected house prices and residential property transactions, overlaid by a more expensive composition of transactions that is likely to reflect both the 'race for space' and use of pandemic-related savings by the better off.

- The **cost of the temporary cut to VAT for the hospitality, accommodation and attractions sectors has been revised up by £0.6 billion for 2021-22**, due primarily to incorporating the latest economic data, which show a significant increase in activity in these sectors relative to the assumptions made in our March forecast.

[16] Costs from 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 follows the rescue phase of the fiscal policy response.
[17] SEISS grants are taxable, so the net cost includes the subsequent gain in income tax. Since this is paid via self-assessment its impact will tend to be a year later than the grant it relates to. The net cost presentation here is different to that in Chapter 3, which focuses on the gross AME cost.
[18] Payments to furloughed employees are subject to tax (mainly PAYE and NICs), so the net cost includes the receipts that are recouped from Government grants. The net cost presentation here is different to that in Chapter 3, which focuses on the gross AME cost.

- **Costs of the VAT new payment scheme have been revised down £0.7 billion in 2020-21**, due to lower than expected deferrals. The initial estimate of deferrals has been revised down from £34.4 billion to £33.5 billion. The cost of this measure relates to the amount of deferred VAT that is not ultimately repaid. The larger sums deferred and repaid affect the timing of cash receipts but have no effect on accrued receipts.
- The **cost of the £20 a week increase in the standard allowance of universal credit has been revised down by £0.4 billion**, £0.3 billion in 2020-21 and a further £0.1 billion in 2021-22, reflecting lower caseloads than we assumed in March.
- The **cost of business rates relief for the retail, hospitality and leisure sectors has increased for 2020-21 by £0.3 billion and then decreased by a similar amount for 2021-22**. This is primarily due to the incorporation of outturn data for both the original scheme and its extension to 31 March 2022.
- There are **two measures in this Budget that add £1.7 billion to the overall cost** of the Government's pandemic-related support. First, the **business rates relief for sectors outside retail, hospitality and leisure** sectors was announced shortly after the March Budget, on 25 March, and is expected to cost £1.5 billion in total, mostly in 2021-22. Second, a **small change to the financial impact declaration included in the fifth SEISS grant** is expected to cost £0.1 billion.

Table A.6: Recostings of pandemic-related support measures

		£ billion					
		Forecast					
	Head	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Measures scored at November 2020 Spending Review							
November 2020 forecast		280.0	52.7	1.9	0.7	0.7	0.5
March 2021 restatement		246.7	50.1	1.2	0.7	0.7	0.5
October 2021 restatement		226.0	45.1	1.7	0.8	0.7	0.4
Difference from March 2021		**-20.6**	**-5.1**	**0.5**	**0.1**	**-0.1**	**-0.1**
of which:							
RDEL underspend	Spend	-10.5	-6.0	0.0	0.0	0.0	0.0
Loan guarantees[1]	Spend	-6.3	0.6	0.5	0.2	0.0	-0.1
CJRS[2]	Spend	-3.1	0.0	0.0	0.0	0.0	0.0
VAT: new payment scheme	Tax	-0.7	0.0	0.0	0.0	0.0	0.0
Business rates relief	Tax/ spend	0.3	0.0	0.0	0.0	0.0	0.0
Universal credit £20	Spend	-0.3	0.0	0.0	0.0	0.0	0.0
Other measures	Tax/ spend	-0.2	0.4	0.0	-0.1	0.0	0.0
Measures scored at March 2021 Budget							
March 2021 forecast		3.3	43.2	-1.3	0.1	-0.3	-0.6
October 2021 restatement		3.1	37.0	-0.6	0.1	-0.3	-0.6
Difference from March 2021		**-0.1**	**-6.2**	**0.7**	**0.0**	**0.0**	**0.0**
of which:							
SEISS[2]	Spend	0.0	-5.0	0.7	0.0	0.0	0.0
CJRS[2]	Spend	0.0	-2.3	0.0	0.0	0.0	0.0
VAT: hospitality	Tax	0.0	0.6	0.0	0.0	0.0	0.0
SDLT holiday	Tax	0.0	0.9	0.0	0.0	0.0	0.0
Business rates relief	Tax/ spend	0.0	-0.3	0.0	0.0	0.0	0.0
Universal credit £20	Spend	0.0	-0.1	0.0	0.0	0.0	0.0
Other measures	Tax/ spend	-0.1	0.0	0.0	0.0	0.0	0.0
Measures scored at October 2021 Budget and Spending Review							
Additional Covid rescue measures[3]		0.0	1.7	-0.1	0.0	0.0	0.0
Total cost of pandemic-related support measures							
November 2020 forecast (£336.5bn total)		280.0	52.7	1.9	0.7	0.7	0.5
March 2021 forecast (£344.3bn total)		249.9	93.3	-0.1	0.8	0.4	-0.1
October 2021 forecast (£315.1bn total)		**229.2**	**83.8**	**1.0**	**0.9**	**0.4**	**-0.2**

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

[1] All of the change in costs for the loan guarantees are allocated to the initial November announcement, since it is not possible to split between that and the March extensions.

[2] Measure has both tax and spend impacts and only the larger is identified.

[3] The two new measures are the extension of business rates relief to sectors other than retail, hospitality and leisure, and an amendment to the financial impact declaration within SEISS 5.

State pension underpayment correction

A.41 An administrative error identified in March 2020 suggested that some people had been underpaid in the 'category BL' element of the state pension. The underpayment affected married women whose husbands became eligible for state pension after 17 March 2008 and who were unknowingly entitled to an 'enhanced pension' that would have boosted their payments by up to 60 per cent. DWP investigations between May and December 2020 uncovered a systematic underpayment of state pensions, meaning tens of thousands of married, over-80s and widowed people were likely to have been underpaid. As well as the category BL underpayments, this includes some underpayments due to 'missed conversions' for people whose partner died and their state pension entitlement was not reviewed, and some underpayments for over-80s who should have automatically been entitled to a 'category D' state pension when they turned 80 without having to make a separate claim, but who were not awarded one. The repayment programme began on 11 January 2021.[19]

A.42 Since March, DWP's further investigations have revealed that its initial estimate of the cost, which we included in our March forecast, was considerably too high. Total back-payments have been revised down by more than half from £2.7 billion to £1.1 billion, while total continuing costs have halved from £0.6 billion to £0.3 billion. Initial estimates in such cases are always uncertain, reflecting early scans of those potentially eligible pending fuller investigation. But the error in this instance is particularly large. The broader issue has been reviewed by the National Audit Office (NAO).[20] As regards the figures included in our forecasts, the downward revision since March is due to:

- **Caseload errors.** The March 2021 Category BL estimate was based on initial sampling by DWP and administrative data. Subsequent analysis of this initial 'at risk' estimate revealed that a significant number of cases related to men whose spouse had been born before 6 April 1950 and were therefore ineligible. A sampling exercise undertaken since March 2021 supplemented this by revising down the estimate of average arrears. The NAO audit revealed other errors that reduced the estimate further.[21] Additionally, the figures for over-80s were not based on detailed Pension Service Computer System (PSCS) scans as the system was undergoing maintenance. They were instead estimated from assumptions and scans of DWP's General Matching Service (GMS), which is used primarily to identify fraud and error. Review of the sampling audit resulted in substantial downward revisions to estimated caseloads and consequently total arrears costs in both categories.

- **The timetable.** The costs shown in our March 2021 forecast reflected initial expectations that the full exercise to correct the underpayments would take more than six years to complete (extending beyond 2025-26). Subsequently, the Government accelerated the timetable to complete by the end of 2023, bringing cases forward into 2022-23. This shift, combined with the reduction in caseload mentioned above, has significantly reduced the continuing costs for both Category BL and Over 80s costs.[22]

- Initial estimates for **missed conversions** were, similarly to the over-80s, based on estimates from DWP's GMS rather than PSCS. Incorporating new sampling information has also led to lower caseloads, but in this case the revisions are small.

[19] As of 30 September, the repayment programme has repaid a total of £60.8 million: £20.8 million to Category BL cases, £20.2 million to missed conversion cases, and £19.7 million to over 80s cases.
[20] National Audit Office, *Investigation into underpayment of State Pension*, September 2021.
[21] Such as revision to the estimate of pensioners resident in the EU.
[22] Continuing costs are largely determined by the volume of active cases at the end of the preceding year.

Table A.7: State pensions underpayments exercise: revised estimates

	March 2021 EFO (extended to 2026-27)	October 2021 EFO	Difference
Category BL			
Overall caseload	78,669	54,869	-23,800
Total arrears costs (£ million)	1,478	350	-1,128
Total continuing costs (£ million)	290	72	-218
Average arrears payment (£ million)	18,787	6,379	-12,409
Average higher continuing payment (£, 2025-26)	1,508	388	-1,120
Missed conversions			
Overall caseload	46,545	43,956	-2,589
Total arrears costs (£ million)	608	567	-41
Total continuing costs (£ million)	125	136	11
Average arrears payment (£ million)	13,054	12,899	-155
Average higher continuing payment (£, 2025-26)	1,846	1,017	-829
Over 80s			
Overall caseload	74,539	36,515	-38,024
Total arrears costs (£ million)	574	147	-427
Total continuing costs (£ million)	139	47	-92
Average arrears payment (£ million)	7,704	4,026	-3,678
Average higher continuing payment (£, 2025-26)	1,424	354	-1,070
Total			
Overall caseload	199,753	135,339	-64,414
Total arrears costs (£ million)	2,660	1,063	-1,597
Total continuing costs (£ million)	554	255	-299
Average arrears payment (£ million)	13,316	7,854	-5,461
Average higher continuing payment (£, 2025-26)	1,549	392	-1,157

Note: Average arrears payments are calculated top down as arrears payments divided by caseload in that year; average continuing payments are calculated as total continuing payments divided by cumulative live cases up to the end of the preceding year.

Policy delays

A.43 To certify costings as central, we need to estimate when – as well as by how much – measures will affect the public finances. As we have set out in previous *EFO*s, 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. Policy delays we have been notified about since March include:

- **Making tax digital (MTD) for self-assessed income tax** and **penalties reform**. The Government's decision to introduce the health and social care levy as a new tax from April 2023 rather than continue to collect receipts through NICs (which the levy largely mimics) has led to the delay of two other measures.[23] MTD is a centrepiece of the Government's 10-year tax administration strategy.[24] It was due to be extended, from April 2023, for businesses and landlords with income over £10,000 that pay via self-assessed income tax from April 2022. The introduction of the levy requires changes to HMRC systems including those for MTD for self-assessed income tax. HMRC was confident that delivery was on track for an April 2023 introduction, but the Government's decision to prioritise the levy now delays this to April 2024. A second measure – 'penalties reform' – has also been delayed as a consequence. Announced at the March 2021 Budget it introduces new late payment and late submission penalty regimes. The one-year delay to MTD means that the self-assessed income tax element of the penalties measure has also been delayed by a year, to April 2024.

- **Revised timetable of transfer in rent support for pensioners from housing benefit (HB) to pension credit (PC).** Legislation was passed in 2012 to abolish HB and for rent support for pensioners to be delivered through a new housing credit within PC, with a 2016 written ministerial statement suggesting that the transfer would begin in 2020. Delays to universal credit (UC) subsequently revised this to 2023. The Government has informed us that the transfer of HB to PC will now occur after the full rollout of UC. Our forecast assumes that that will happen mid-way through 2026-27 (reflecting almost a decade of delays to the rollout). We therefore assume that the transfer to housing credit will not commence until then.

Policy reversals

A.44 There are two measures in this Budget that fully or partially reverse past policy decisions:

- **Personal independence payment (PIP): reduce frequency of reassessments.** This measure, announced at Budget 2020, was a manifesto commitment to reduce the frequency of health assessments required by PIP recipients. A minimum award review length of 18 months would apply to those whose condition was deemed unlikely to change significantly. It was due to come into force from June 2020, was subsequently delayed to April 2021, and is now being abandoned entirely before coming into effect.

- **Air passenger duty (APD).** This Budget increases the number of APD distance bands from two to three, introducing a new high rate Band C from April 2023. This partially reverses the Budget 2014 decision to abolish the two highest of the four bands that were in place at the time, which the Government argued would "*help British businesses strengthen links with high growth markets, and to go further to make the UK an attractive option for business visitors and tourists*".

[23] One difference between the levy and NICs is that the former will apply to those working but above the state pension age. That element raises £0.2 billion in 2026-27, around 1 per cent of the total raised by the levy in that year.
[24] HMRC and HM Treasury, *Building a trusted, modern tax administration system*, July 2020.

Update on other measures

A.45 Several other measures have been subject to material updates since March:

- **Capital allowances: two-year 130 per cent super deduction.** This Budget 2021 measure enables expenditure on new plant and machinery that qualifies as a 'main rate' asset to temporarily benefit from a 130 per cent capital allowance super deduction. A 50 per cent deduction is available for 'special rate' assets. The normal rates are 18 and 6 per cent respectively, so the measure is extremely generous, and qualifying expenditure is not limited by value. Our March estimate was that the measure would cost £12.3 billion in 2021-22 and £12.7 billion in 2022-23. By bringing forward tax-deductible investment from future years, the measure actually increases yield from 2024-25 onwards when investment is lower than it would otherwise have been. Early evidence suggests that super-deduction claims are building up more slowly than expected, helping to reduce the expected cost in 2021-22 to £9.4 billion. The 2022-23 peak cost has also been revised down to £10.6 billion. Over the full five years of the original costing, the cost is lower by £2.8 billion, which is largely due to a downward revision in the size of the tax base. Updated modelling of losses has also changed the profile of the costing, though not its quantum.

- **Offshore receipts from intangible property.** This measure originates from the Autumn Budget 2017 measure '*Royalty payments made to low tax jurisdictions: withholding tax*', which was initially expected to generate an average yield of £0.2 billion a year between 2019-20 and 2022-23.[25] Subsequent amendments in 2018 led to the current measure, which we forecast at the time would generate an average of £0.3 billion a year between 2020-21 and 2023-24. The measure targets multinationals resident in certain low-tax jurisdictions that generate income from intangible property, to the extent that the income is connected, directly or indirectly, to sales in the UK market. It applies a 20 per cent income tax charge, effective from April 2019. HMRC outturn data for 2020-21, mostly in respect of 2019-20 liabilities, show that £1.3 billion has been collected, some £0.8 billion (165 per cent) higher than our 2018 estimate. There are two elements of the original costing that were most likely underestimated. Firstly, the tax base – the level of underlying activity – and secondly, the degree to which businesses were expected to restructure to avoid the rules. HMRC intelligence suggests that businesses have subsequently restructured and fallen out of scope of the tax, which implies the first-year yield in effect amounted to a windfall tax. Forecast yield between 2021-22 to 2026-27 is a more modest £25 million a year on average.

- **Seller and online marketplace liability and the abolition of low value consignment relief (LVCR).** This Spending Review 2020 measure relates to VAT on imports and was part of the package of changes brought in ahead of the UK's exit from the EU. It

[25] The 2017 measure was itself an extension of a measure announced at Budget 2016. That measure – '*Income tax: withholding tax on royalties*' – widened the scope of royalty payments to include intangible assets and broadened the rules on when royalties are regarded as having a UK source. The 2017 measure expanded the scope of those royalty withholding tax rules, while the 2018 amendments that led to the current measure brought embedded royalties within scope, changed the measure from a withholding tax to a direct income charge, and switched its collection to self-assessed income tax. The definition of intangible property is relatively broad, including goodwill, patents, trademarks and copyrights.

removed LVCR for all non-EU imports into Great Britain (it still applies in Northern Ireland).[26] The measure also made VAT payable at the point of sale, effectively moving its collection from the border to online marketplaces that facilitate sales as well as direct sellers (domestic and overseas). The initial costing was expected to yield £0.3 billion a year between 2021-22 and 2025-26, but outturn data for the current year suggest this was a material underestimate. We now expect the measure to generate £1.4 billion in 2021-22, rising steadily to £1.8 billion by 2026-27. The five-fold increase in the average annual yield is largely due to underestimating the tax base.

- **UK global tariff (UKGT):** The UKGT was announced at Spending Review 2020 and was expected to raise around £1 billion a year from 2021-22 onwards.[27] This was more than explained by around £1.4 billion a year of receipts on EU imports (revised down to £1 billion in our March forecast) from traders unable or unwilling to take advantage of available preferential tariff rates. The costing captured these via assumptions about 'preference utilisation rates' (PURs). Our latest customs duties forecast has been revised up by £1.1 billion a year from March. One factor, relating to non-EU trade, is higher than expected imports of electric and hybrid vehicles, particularly from China, which contributes £0.2 billion of the surplus. Around £0.5 billion relates to unexpectedly low PURs on EU imports. The original costing assumed PURs between 80 and 90 per cent, whereas in the textiles and clothing sector, which contributes the majority of the extra yield, the current estimate is between 25 and 35 per cent. This is likely to be part of a shifting 'entrepot effect' where goods are offloaded in the EU and then transhipped to the UK, where they become liable for UK customs charges due to not meeting 'rules of origin' requirements of the Trade and Cooperation Agreement (TCA).[28] As a result, we estimate that tariff-free trade of goods under the TCA is expected to raise £1.6 billion a year in customs revenue from EU imports. The extent to which the lower PURs observed in outturn will persist is uncertain. Given the sectors in which the effect is largest, we have assumed only modest rises in the average PUR in future.

Policy risks

A.46 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 (for example, because policy parameters are being consulted on or implementation dates have yet to be set), 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. Risks that are particularly large, have changed materially since our last forecast, or are new, include:

[26] LVCR provided VAT relief for imported goods valued at £15 or less.
[27] There were four elements to the original £1 billion costing: the UKGT reduced tariffs for non-EU imports, at a cost of around £1 billion; the PUR element raised £1.4 billion from EU imports; a further £0.8 billion came from existing EU trade deals that the UK had yet to rollover (most of which have now been rolled over); and a £0.2 billion cost associated with additional non-compliance.
[28] Previously, customs duties would have been due when goods first entered the EU, from where they could then be shipped to the UK without incurring further charges.

- **OECD global corporation tax agreement.** Pillar 1 of the 'OECD Inclusive Framework' agreement around the taxation of multinational company profits reallocates taxation rights from the countries where multinationals currently realise residual profits to the markets where their customers are located. It applies to multinationals with global revenues of at least €20 billion and profit margins more than 10 per cent. 25 per cent of profits beyond that margin will be subject to tax in the market jurisdiction. The OECD agreement is not legally binding on countries but is a political commitment to adopt the new rules. The Chancellor has committed to removing the digital services tax (DST, forecast to raise £0.7 billion in 2024-25) once a Pillar 1 solution is in place. Pillar 2 of the agreement is a commitment to a global minimum tax rate of 15 per cent, on a country-by-country basis. The Government expects the agreement to raise revenue overall, but there remain too many uncertainties to determine a reasonable and central estimate at this stage, with initial external estimates varying considerably.

- **Changes to the migration regime.** The Government's UK Innovation Strategy outlines two new visa routes ('High Potential Individual' and 'Scale-up') and reintroduces the innovator route. Fees and associated charges (such as the immigration health surcharge) for these categories are yet to be confirmed, so the direct fiscal consequences of this policy are yet to be reflected in our forecast.

- **UK-Australia trade deal.** The UK-Australia trade deal, announced on 15 June 2021, removes tariffs on all UK goods exported to Australia and nearly all Australian exports to the UK, subject to meeting 'rules of origin' requirements. It remains an 'agreement in principle' at this stage, with details to be finalised, so we have not yet included any impacts in our forecast, though the fiscal impacts are likely to be modest. Australia accounted for 0.8 per cent of total UK imports in 2019-20 and 0.7 per cent in 2020-21, while UK exports to Australia in those years made up 1.7 per cent and 1.6 per cent of total exports respectively. The Government estimates the deal will add around 0.01 per cent to GDP.

- **The border operating model.** The Trade and Cooperation Agreement (TCA) negotiated between the UK and the EU ensures tariff- and quota-free trade, subject to meeting relevant 'rules of origin' requirements (which our latest forecast suggests a significant proportion of EU exporters to the UK are either unable or unwilling to do). The TCA does not affect declaration requirements set out in the Government's border operating model. The border operating model sets out how and when the Government will implement and manage its customs and border control obligations after exiting the EU. Since our March *EFO*, the Government has announced that the introduction of full customs checks on goods arriving from the EU will be delayed by a further six months, to 31 December 2021. The eventual full implementation of the border operating model therefore remains an ongoing risk, with scope for further delays.

- **Northern Ireland Protocol.** The Government's 21 July 2021 Command Paper stated its intention to renegotiate several aspects of the existing Northern Ireland Protocol that it agreed with the EU, and ratified in 2020. These include the full customs and sanitary and phytosanitary measures that are currently applied to all goods entering Northern

Ireland from Great Britain, regardless of final destination. This month the European Commission has responded, offering *"a bespoke solution for Northern Ireland on food, plant and animal health […] leading to approximately an 80% reduction in checks"*. There remains significant uncertainty around the medium- to long-term operation of the protocol, and the Government has not ruled out unilateral measures via the protocol's Article 16 safeguard mechanism.

- **'Goodwin' pensions case.** In July 2021, the Government published its response to what has become known as the 'Goodwin case'.[29] The case successfully challenged that the disparities in rights to survivors benefits in the Teachers' Pension Scheme (TPS) were discriminatory. Though the challenge was to the TPS, the ruling requires all public service pension schemes that have similar discrimination to provide remediation. Uncertainty over how the remediation will be implemented means that it has not been possible to reflect the associated costs in this forecast, but we expect to include it in our next one. The Treasury estimates that the overall increase in pension liabilities as a result of remediation could be of the order of £3 billion over 40 years. The cost will therefore be on a smaller scale to the 'McCloud remedy' that has added an average of £0.6 billion a year to our public service pensions forecast in this *EFO*.

- **Children's social care review.** In January 2021, the Government commissioned an independent review into children's social care. On 5 August, early findings were shared in a letter by the Chair of the Independent Review, to "*inform [the Government's] spending review bid*". The letter suggested that significant reforms were needed, including "*significant additional funding for effective family help*", an investment of "*additional money*" into homes for children in care, and greater investment into mental health provision for children. As the full review will not conclude until 2022, any additional spending implications remain a risk to our forecast.

- **Response to the R&D tax credit consultation.** At March Budget 2021, the Government launched a wide-ranging consultation on R&D tax credits. The consultation has closed but the Government has yet to publish a response or make any new policy decisions.

- **Freeports in Scotland, Wales and Northern Ireland.** The Government announced the locations of eight freeports in England in March and declared its ambition to establish freeports in each of Scotland, Wales, and Northern Ireland. Some of the tax concessions available within freeports fall into devolved competence, requiring negotiation with the relevant devolved administration, which has limited progress to date. The Government can establish freeports without the involvement of devolved administrations, but tax incentives in them would be limited to the reserved taxes.

- **Extended producer responsibility for packaging.** In March, the UK, Scottish and Welsh Governments and the Northern Ireland Executive issued a joint consultation stating *"their strong intent to introduce Extended Producer Responsibility for packaging so that*

[29] *The Teachers' Pensions (Miscellaneous Provisions) (Amendment) Regulations 2021*, Government consultation response, Department for Education, 8 July 2021.

producers pay the full costs of dealing with the waste they produce". Detailed policy parameters have yet to be set.

Costs of failing to implement the Government's indexation policies

A.47 The Government decides how different rates and thresholds will rise over time in the absence of specific decisions to the contrary. These 'default indexation' policies are published in the Treasury's *'Policy costings document'* alongside each Budget. Consistent with the requirements placed on us by Parliament, we forecast on the basis of those policies.

A.48 In some cases, despite Governments restating these policies every year, they are rarely implemented. The biggest revenue effects from these decisions have been related to fuel and alcohol duties, but a similar pattern has been seen with several smaller taxes. Table A.6 shows that the freezing of rates for several taxes in this Budget comes at a cumulative cost of £11.3 billion across the forecast – a figure that equates to the direct contribution of these decisions to the level of public debt in 2026-27.

A.49 The Government's stated policy for each of these taxes remains to raise rates each year in line with RPI inflation, despite many being frozen for several years. Indeed, the fuel duty and aggregates levy rates have been frozen for more than a decade, while for VED paid in respect of heavy goods vehicles rates have not risen for more than two decades.

A.50 We estimate that the cumulative cost of freezing fuel duty rates between 2010-11 and 2020-21, relative to increasing them in line with RPI inflation, to be around £65 billion after factoring in the expected fall in demand for fuel from higher duty rates.

Table A.8: Costs of not following the Government's stated indexation policy

Tax	Stated policy	Actual policy	£ billion
			Cumulative scorecard cost
Fuel duty	Increase rates by RPI	Rates frozen since 2010	7.9
Wine duty	Increase rates by RPI	Rates frozen since 2020	0.8
Beer and Cider duty	Increase rates by RPI	Rates frozen since 2017	1.0
Spirits duty	Increase rates by RPI	Rates frozen since 2017	1.2
HGV levy and VED	Increase rates by RPI	Rates frozen since 2019 and 2001	0.3
Aggregates levy	Increase rates by RPI	Rates frozen since 2010	0.1
Total cost			**11.3**