Office for Budget Responsibility

Welfare Trends and Forecast Evaluation

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Chairman
19 December 2019

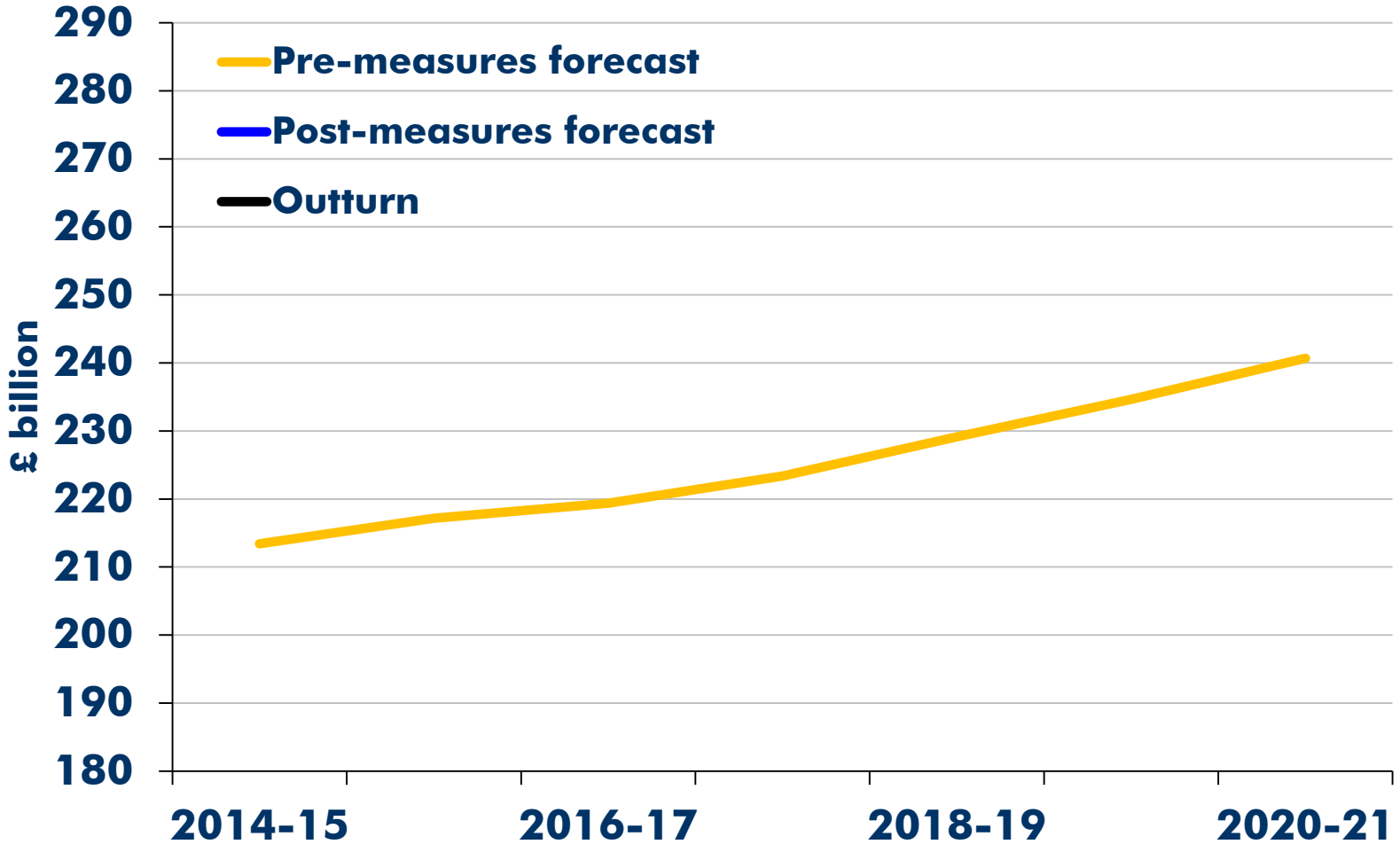
Outline

- **Welfare trends report**
  - Did the July 2015 welfare cuts package save £12bn?
- **Forecast evaluation report**
  - Our pre- and post-referendum forecasts in 2016
- **Looking forward to our next forecast**
  - The importance of proper process and timetabling
  - Restatement of March forecast for statistical changes

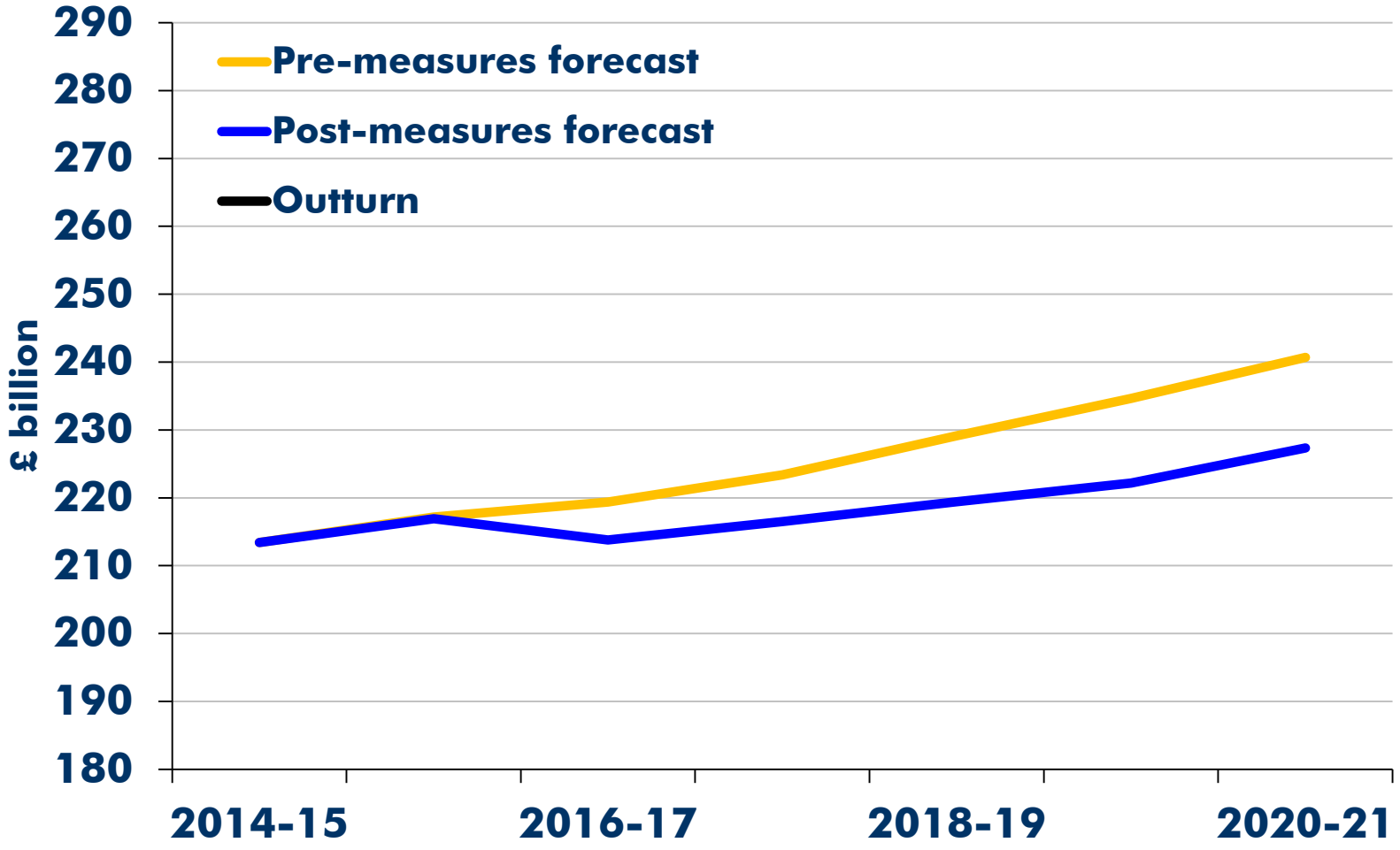
Welfare in the July 2015 Budget

- **Conservatives promised welfare cuts in 2015 manifesto**
  - Pledge to save £12bn by 2017-18
- **July 2015 Budget package aimed for £12.5bn by 2019-20**
- **Three main elements accounted for 60% of the cuts**
  - Working age benefits/tax credits frozen for four years
  - Income thresholds and work allowances cut
  - Tax credits taper rate raised to 48%
- **'Welfare cap' lowered by 13% to reflect expected savings**

Welfare spending: forecasts and outturn



Welfare spending: forecasts and outturn



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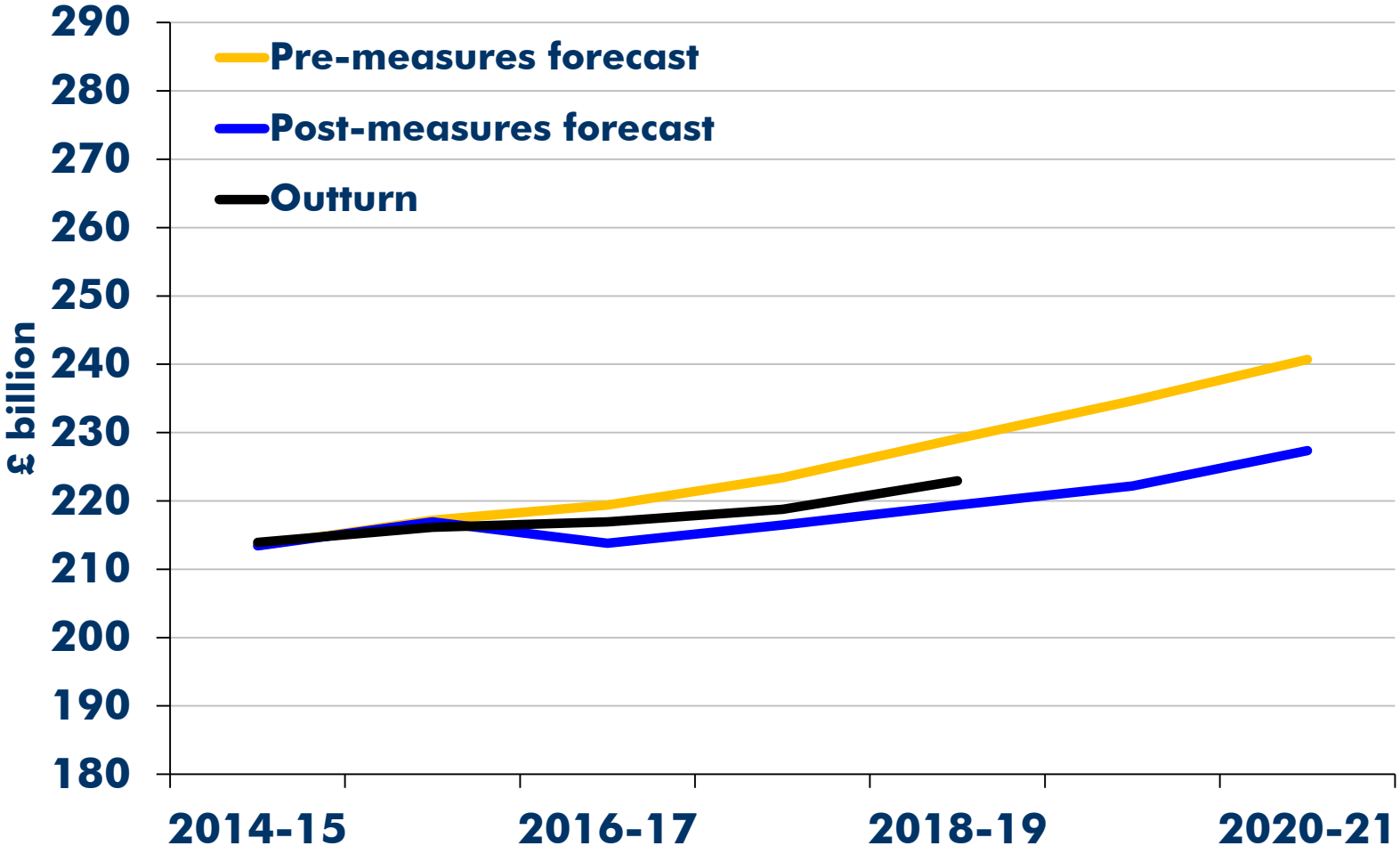
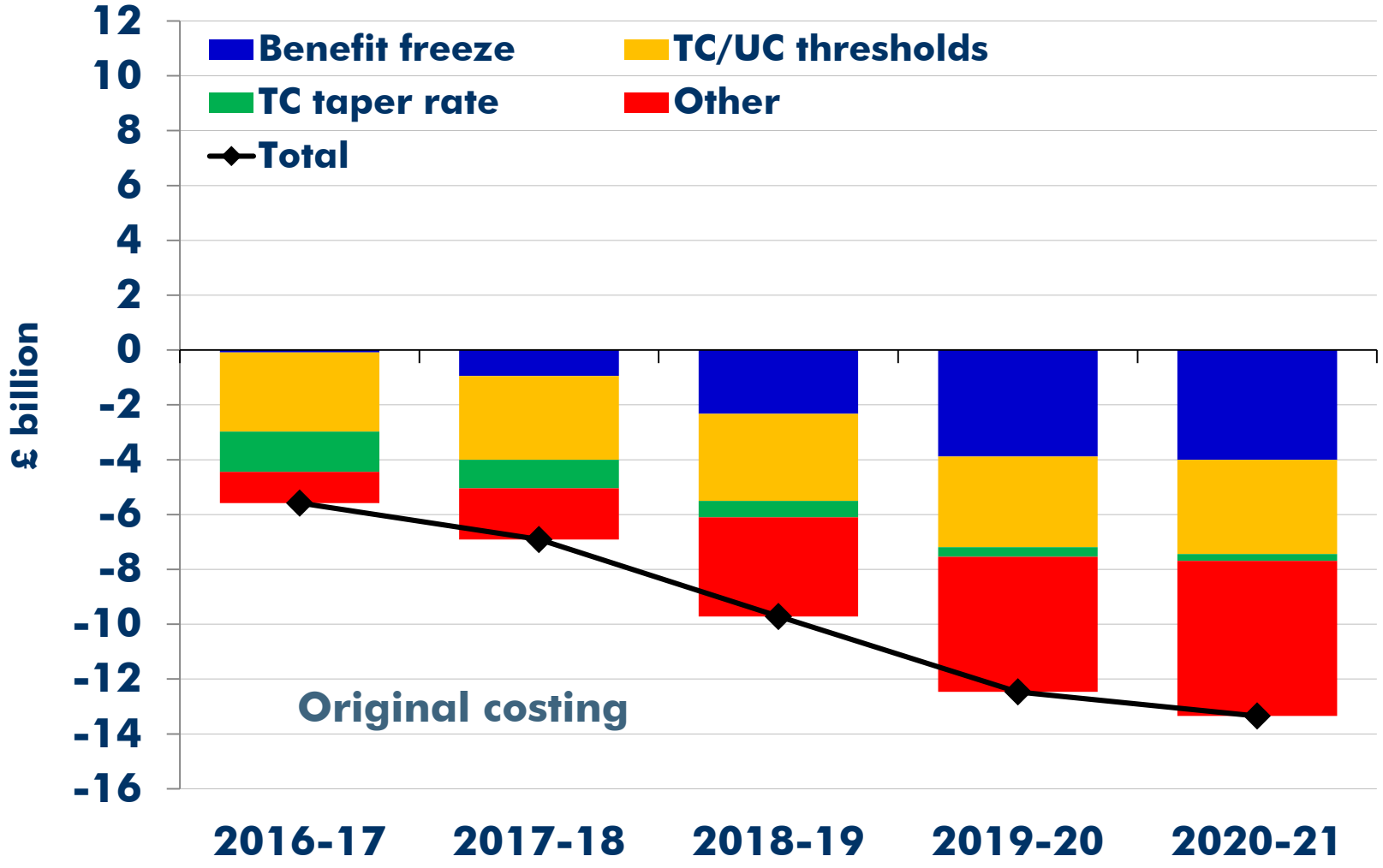


Recosting the cuts package for 2018-19



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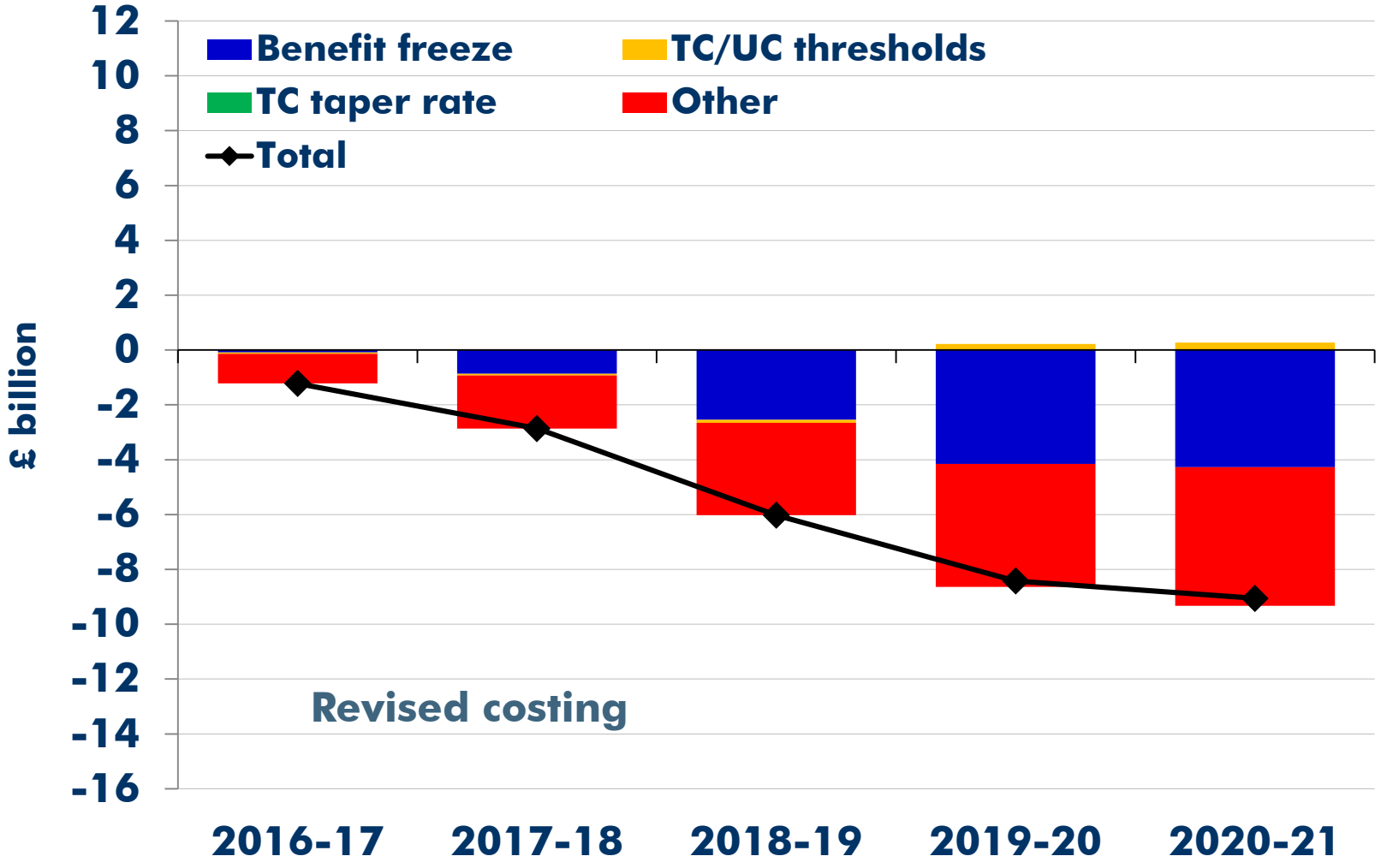

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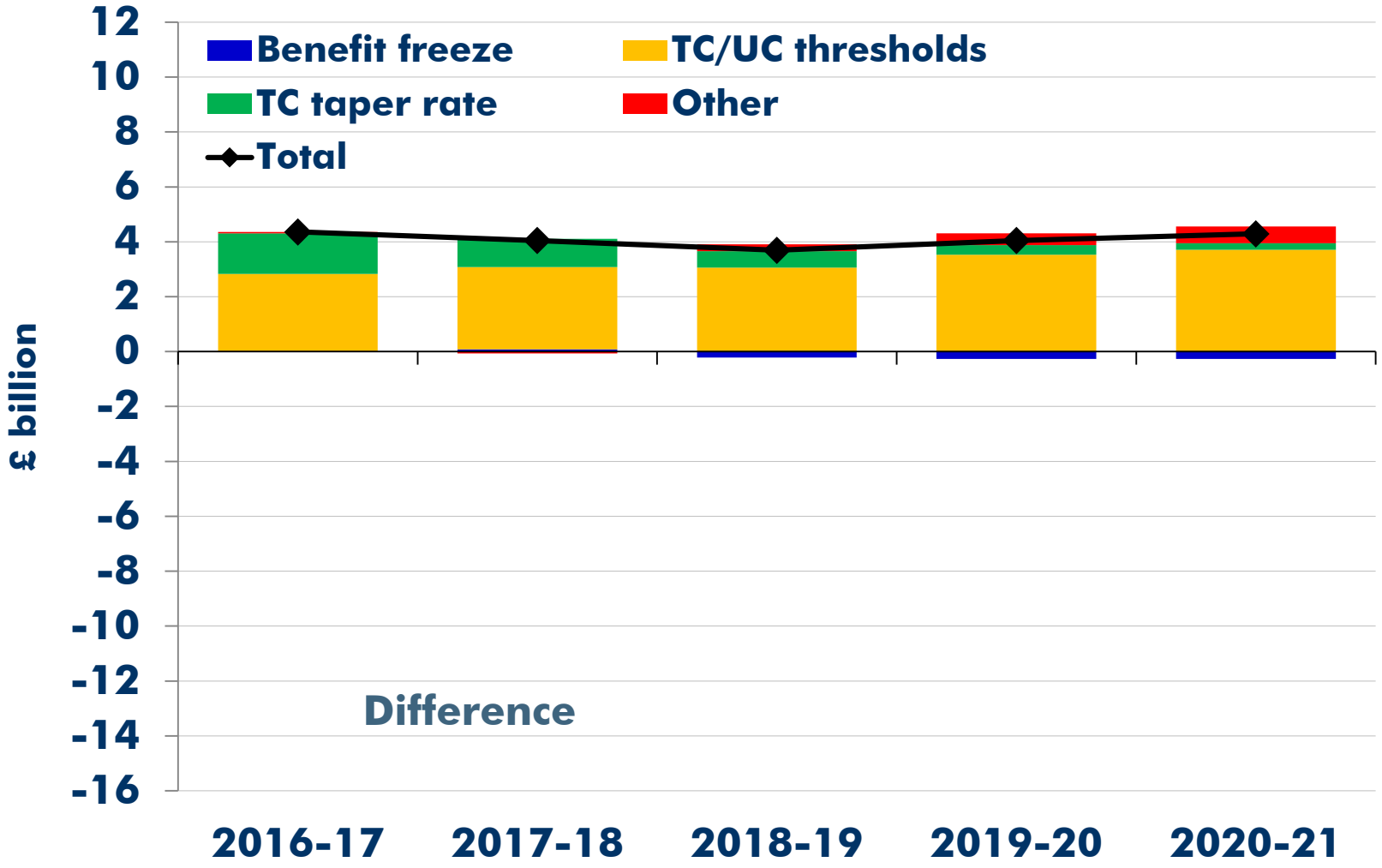


2018-19 spending: other factors

- Disability benefits
- Lower earnings growth
- Higher income growth among tax credits recipients
- Higher mortality rates

Some lessons from the WTR

- Squeezing awards generates more reliable savings than structural reform
- Small variations in determinants of state pension spending generate big numbers
- Cash losses trigger policy U-turns

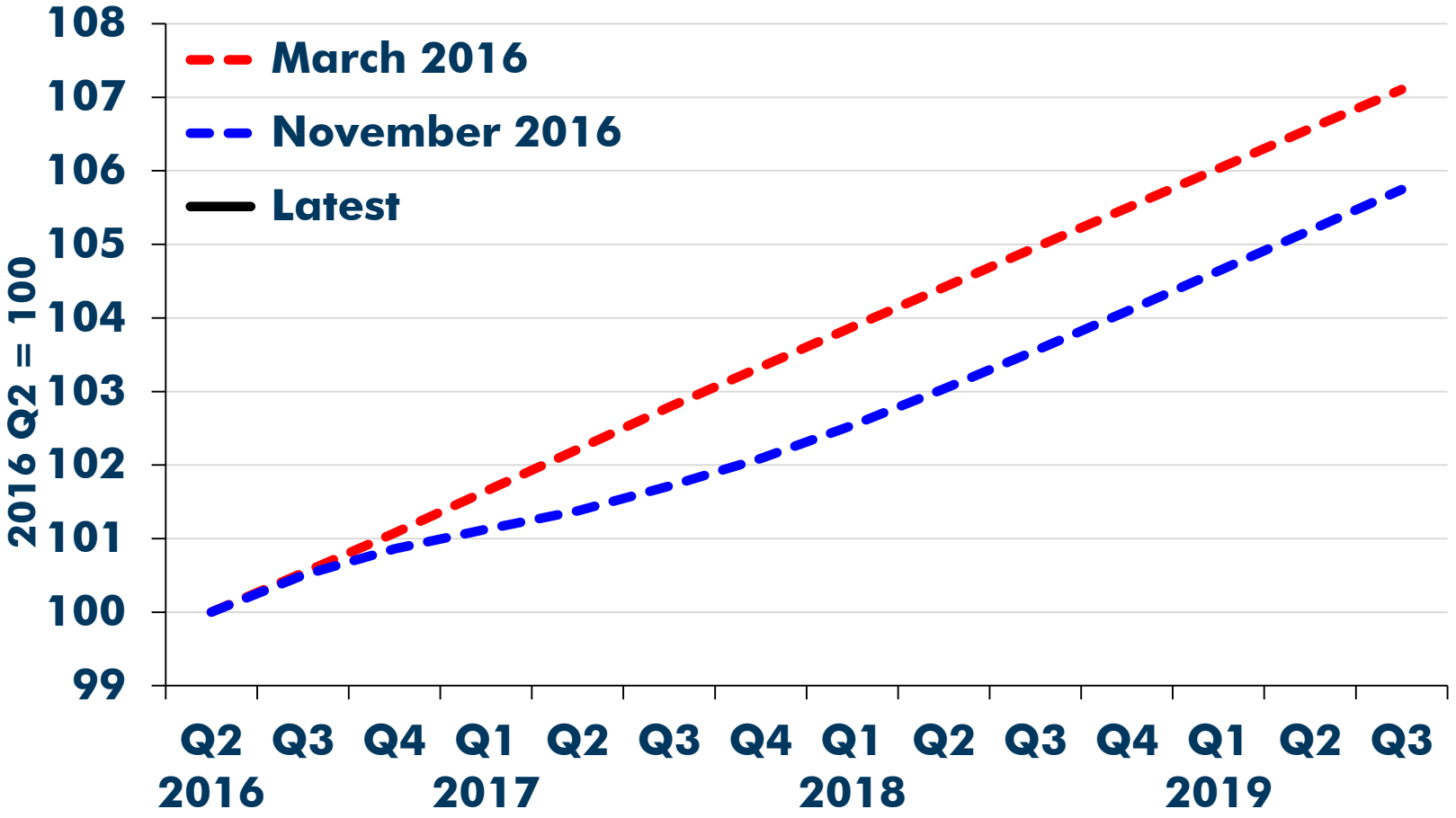
Forecast evaluation report

- Assesses our March and November 2016 forecasts
- Forecasts downgraded following EU referendum
- Post-referendum economy forecast remarkably accurate
- But public finance forecast too pessimistic
- Why?

Our November 2016 economy forecast

- Weaker pound would raise inflation, squeeze real incomes and real consumer spending
- But have only a modest offset via stronger net trade
- Uncertainty would depress business investment
- Net inward migration would be weaker
- Lower productivity and lower potential and actual GDP

Real GDP: forecast and outturns



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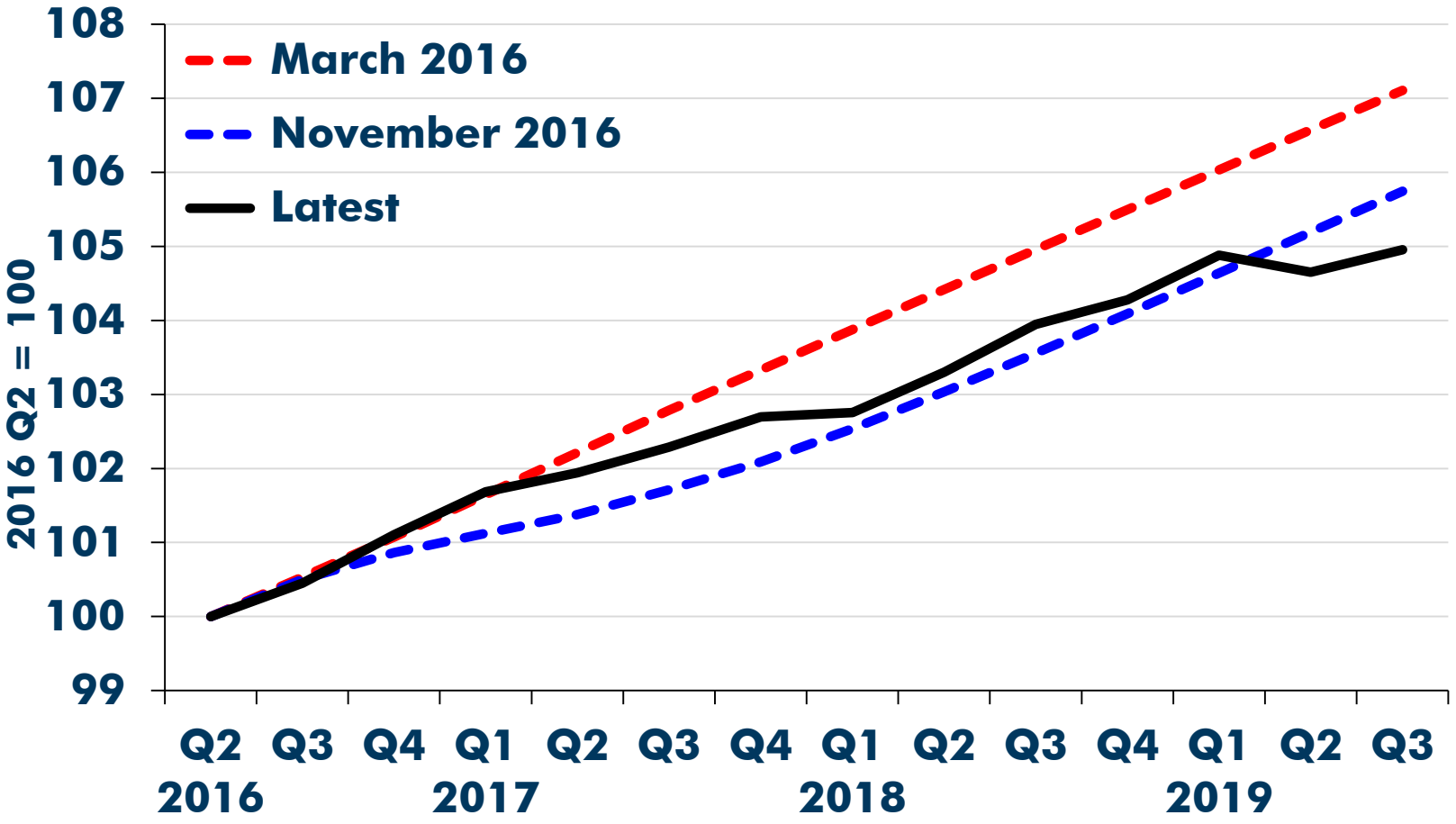
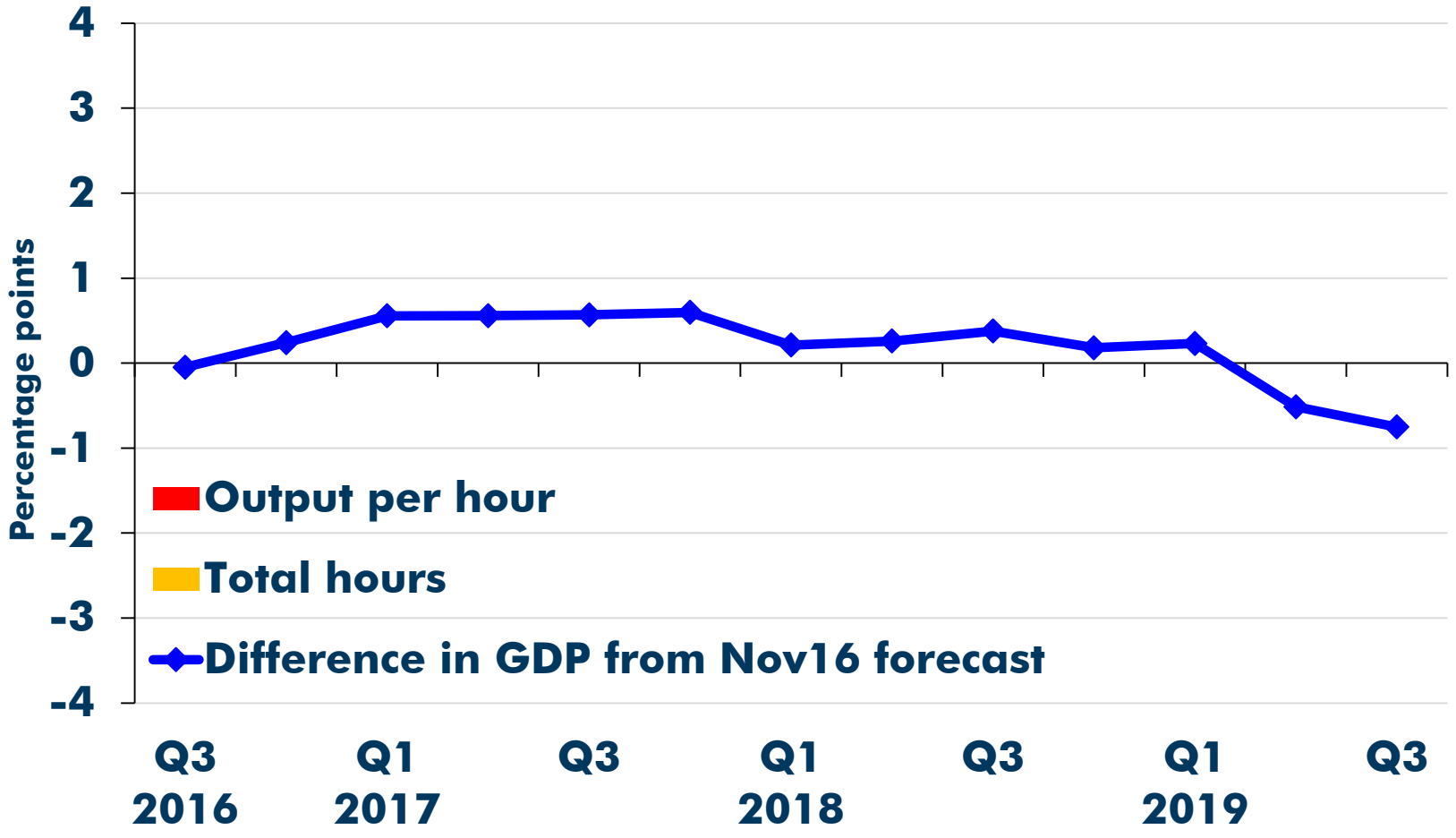


Real GDP error: hours v productivity



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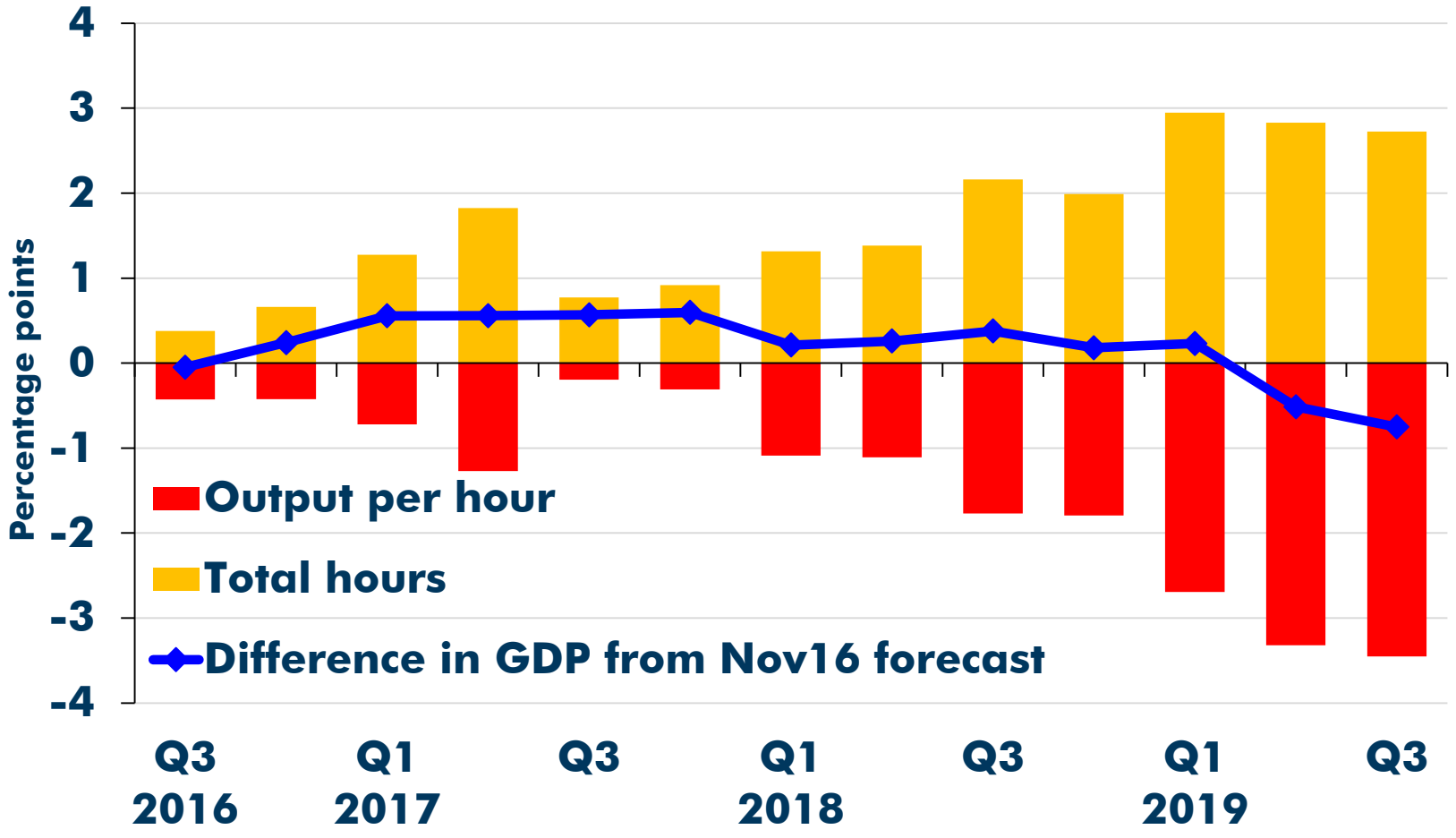
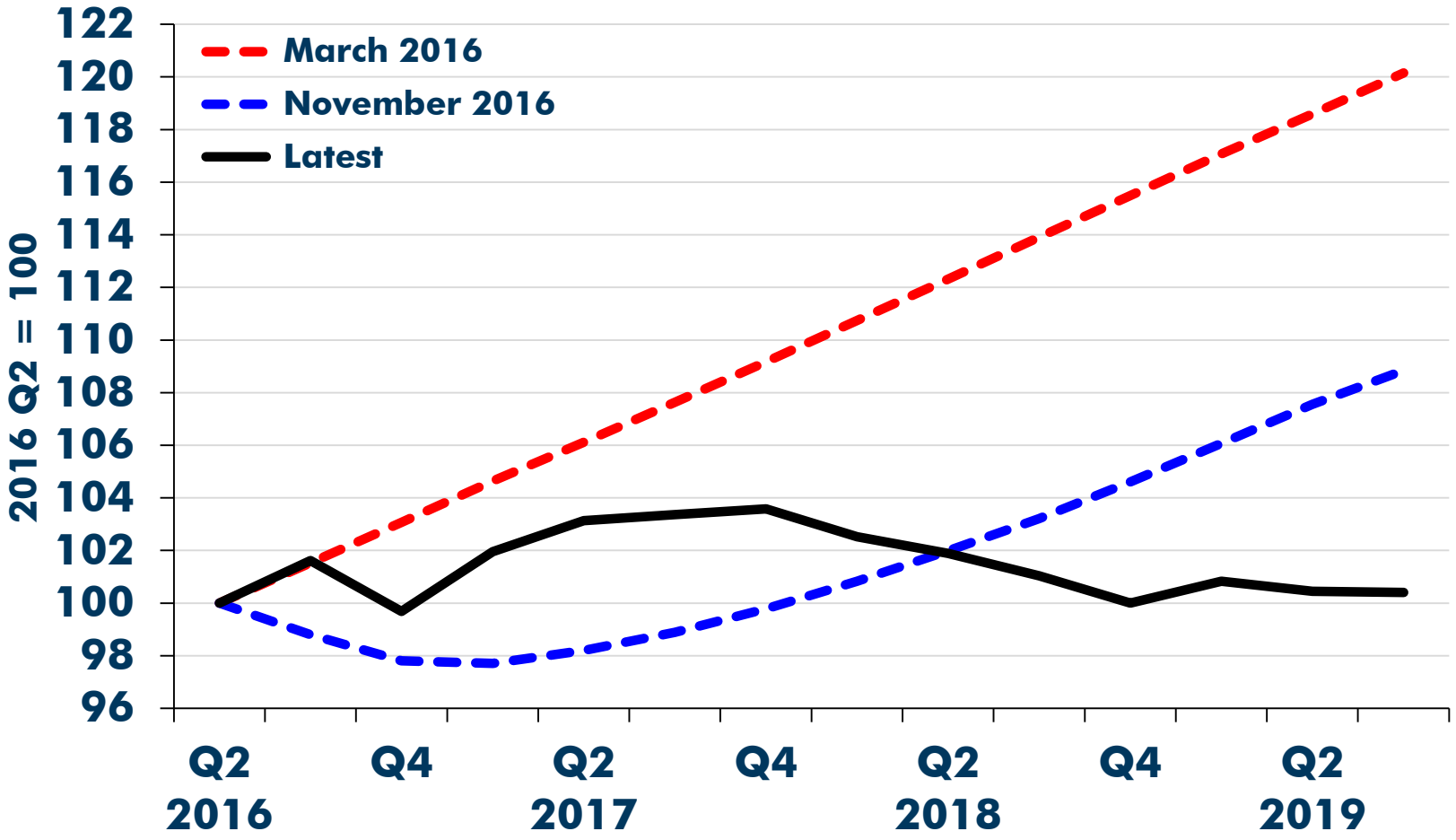


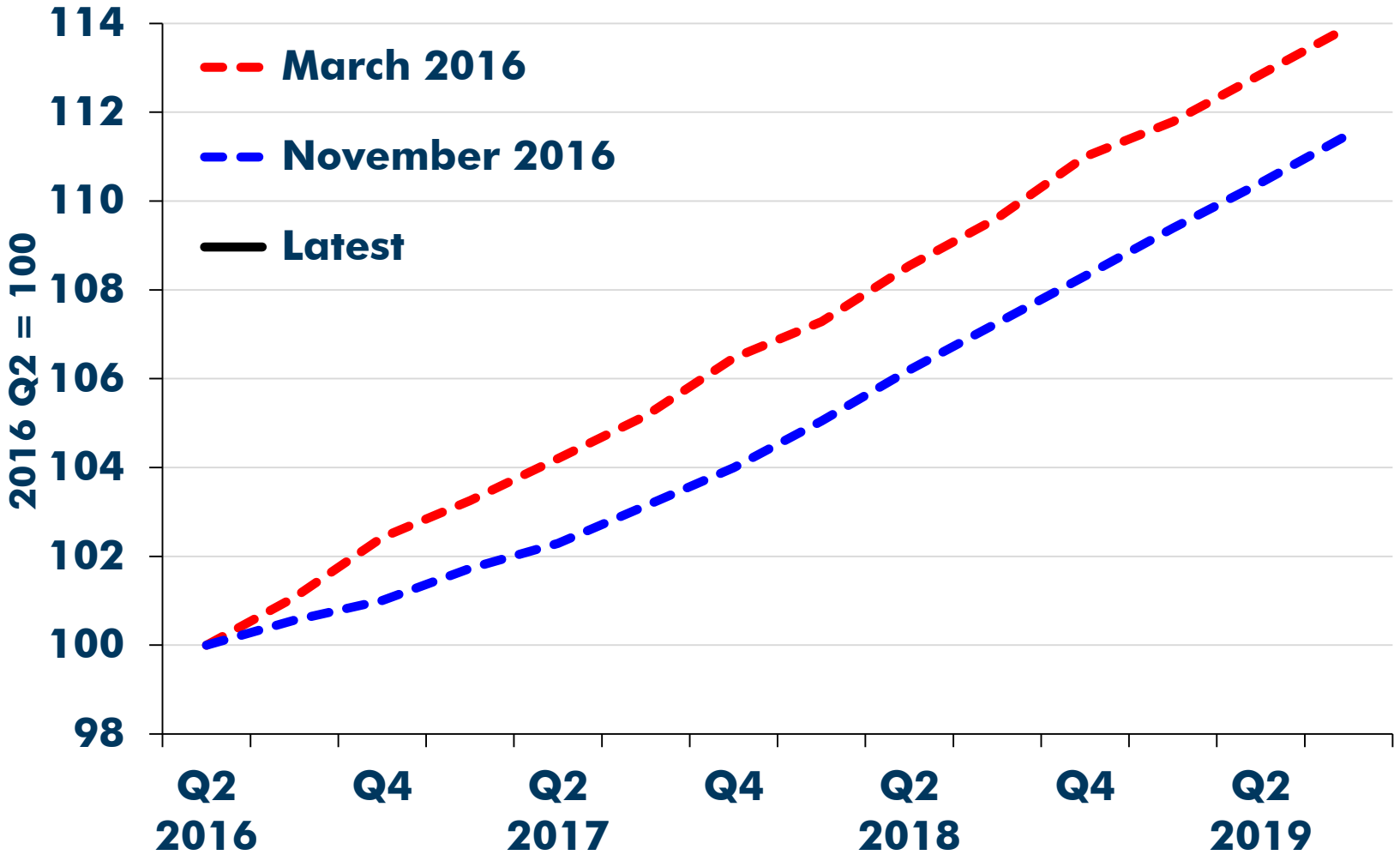
Real GDP: forecast and outturns

Cumulative percentage point contributions to GDP growth, Q2 2016 to Q3 2019	Latest	November 2016	*Difference*
Private consumption	3.7	3.3	*0.4*
Business investment	0.0	0.8	*-0.8*
Other private investment	0.2	0.3	*0.0*
Total government	1.0	0.4	*0.6*
Net trade	0.2	0.8	*-0.6*
Stocks and statistical discrepancy	-0.3	0.1	*-0.4*
GDP	*5.0*	*5.7*	*-0.8*

Real business investment



Nominal GDP: forecast and outturns



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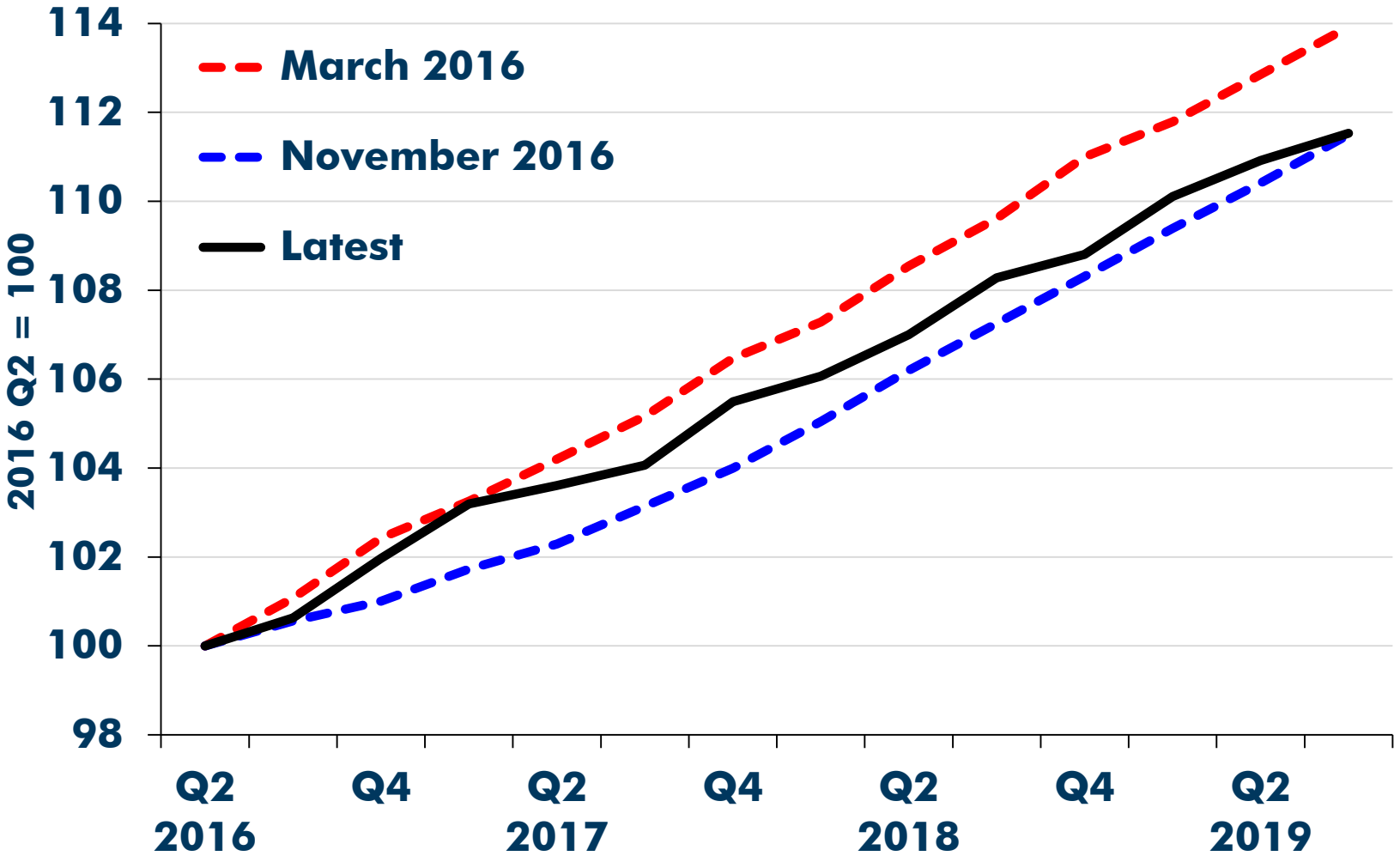
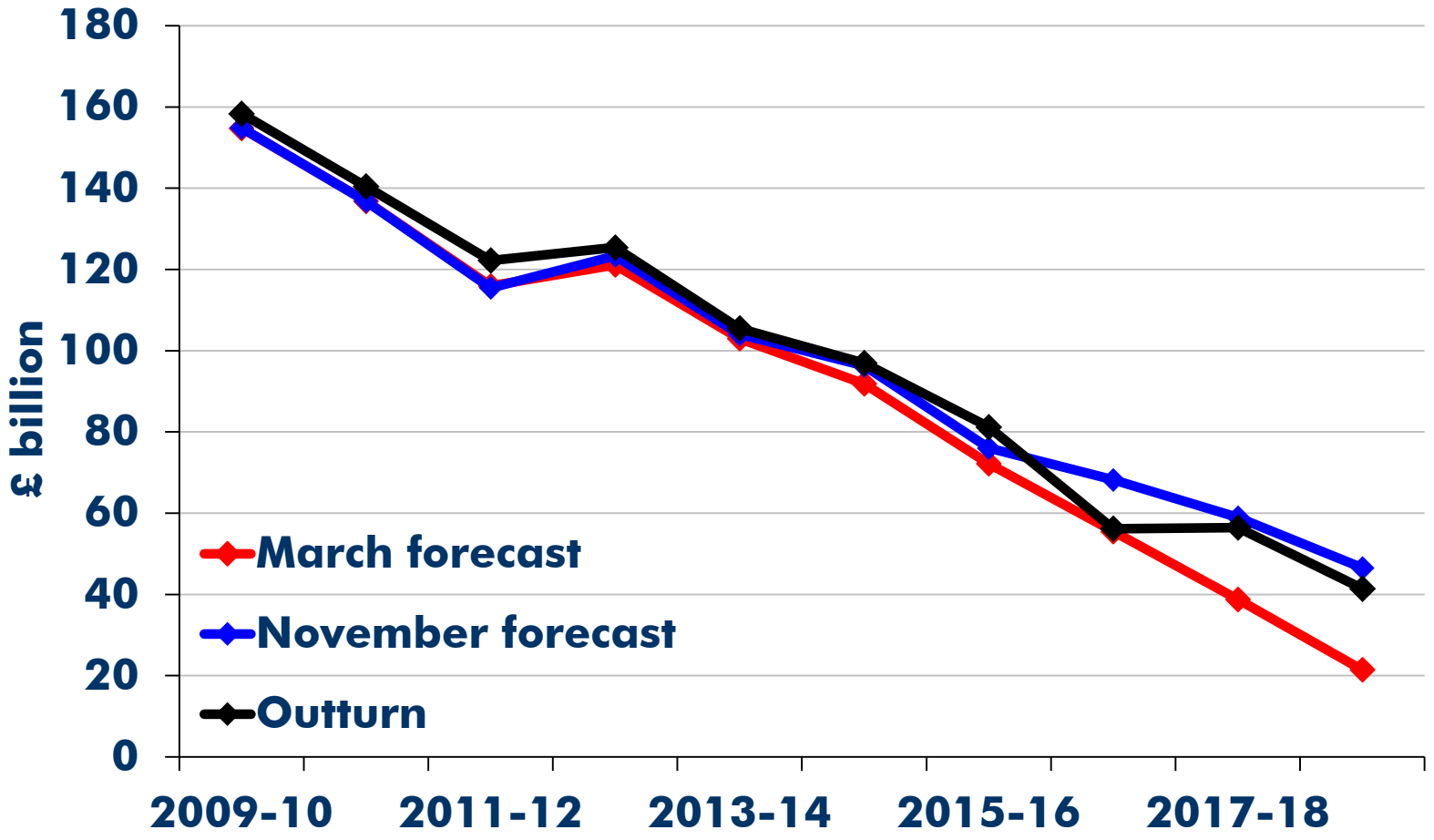


The public finances

- Comparing forecast and outturn not straightforward
- Meaningful comparison requires us to restate forecasts for subsequent methodological and statistical changes
- On this occasion we have also had to adjust the outturn data to reflect (big) similar changes since March

Budget deficit: forecasts and outturns



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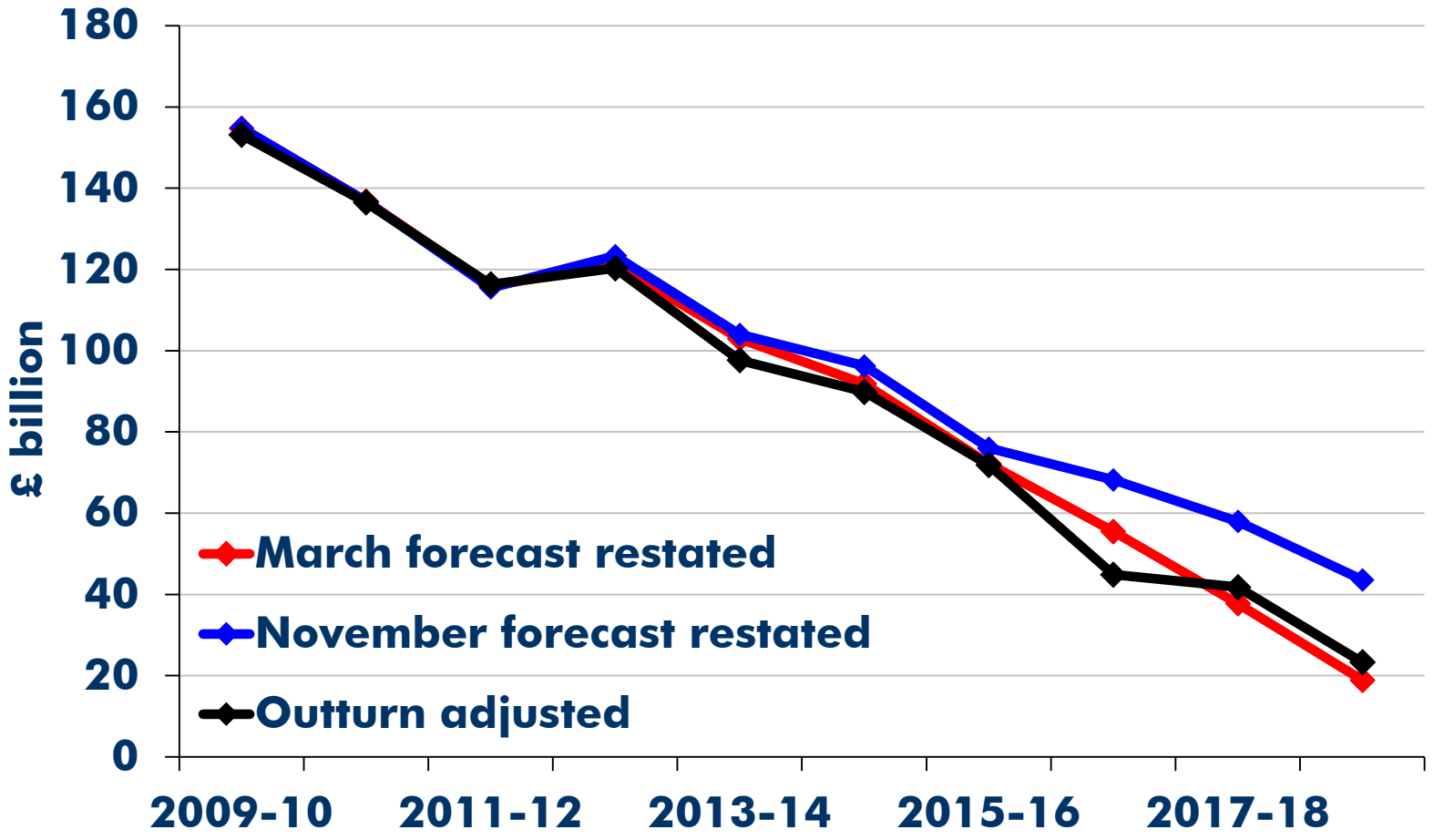
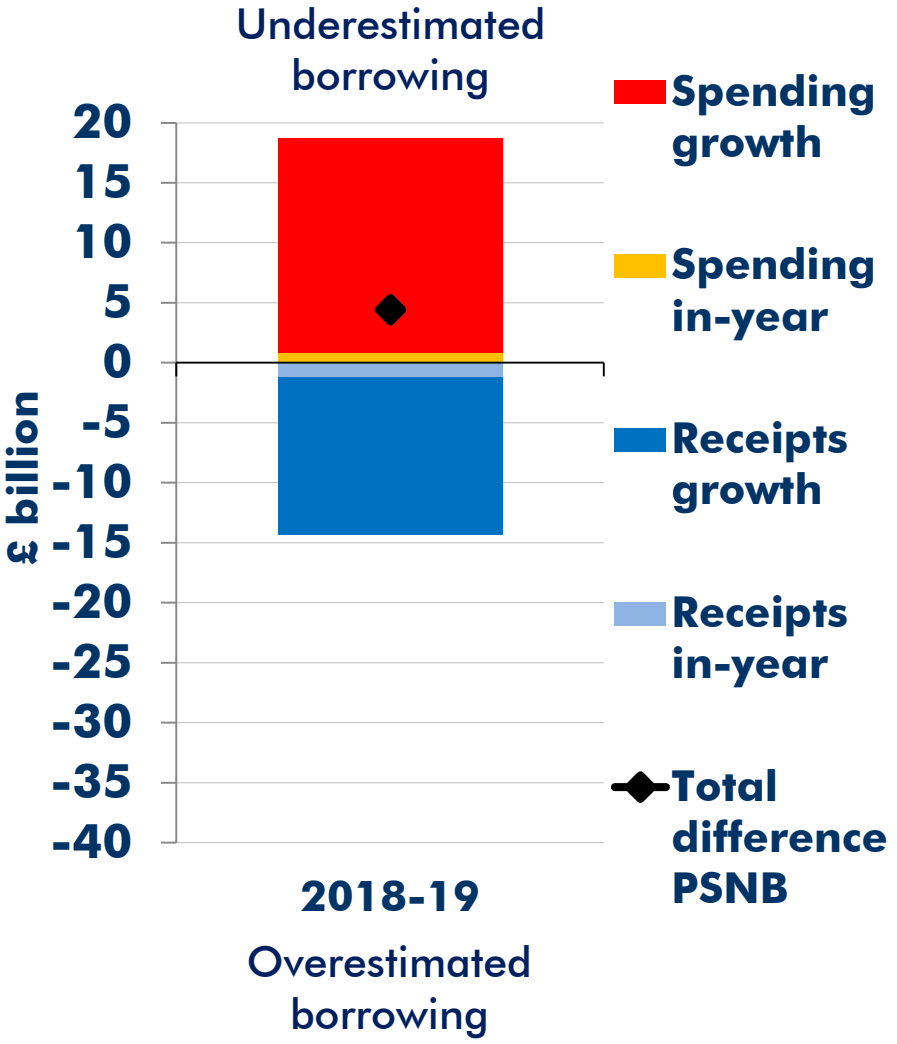


PSNB forecast error 2018-19

March 2016

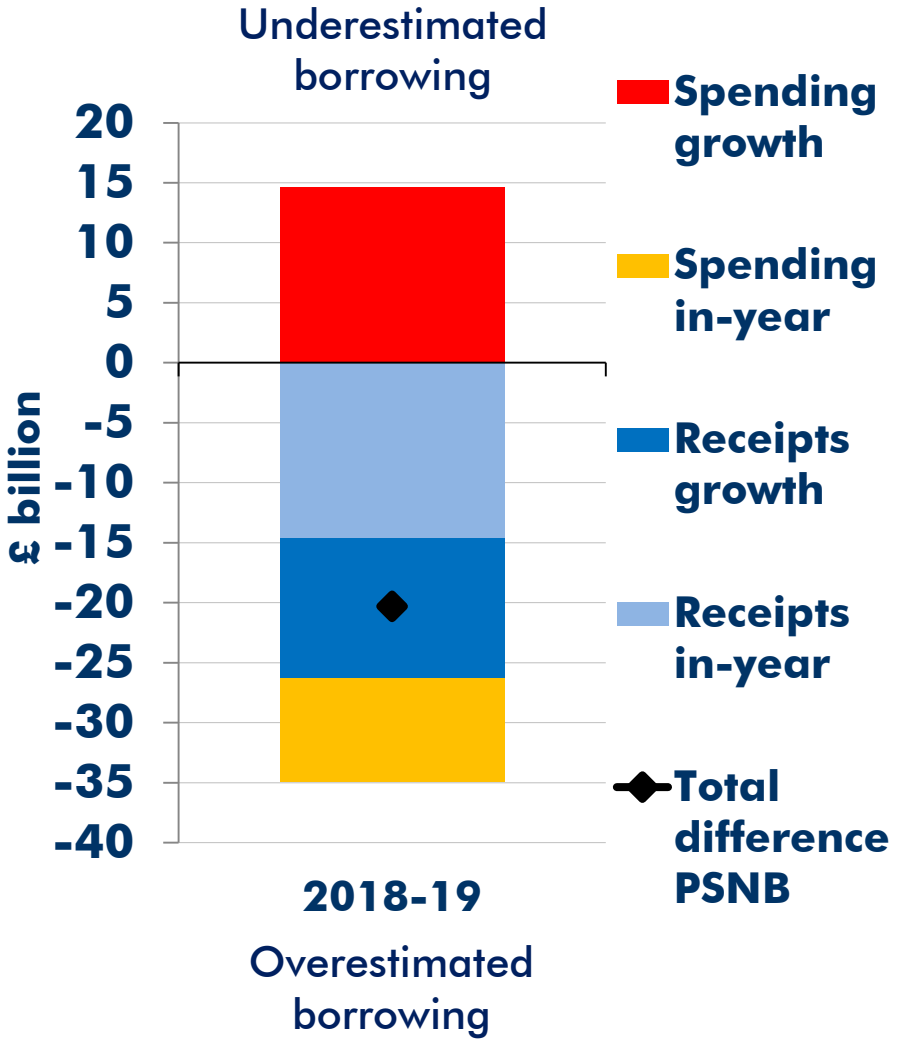
- Accurate starting point
- Growth in departmental and local authority spending underestimated
- Growth in corporation tax underestimated



PSNB forecast error 2018-19

November 2016

- 2016-17 in-year forecast too pessimistic, partly reflecting revised state
- Subsequent growth in receipts and spending closer to forecast



Lessons from the FER

- **Issues highlighted**
  - Household response to real income shocks
  - Speed with which shocks have impact
  - Composition of labour income
  - Use of corporation tax deductions and reliefs
  - Local authority borrowing for capex
- **Review of fiscal forecasting models: priorities**
  - Exploiting outturn data sources
  - Better alignment with ONS accounting treatment
  - Improving plausibility and transparency

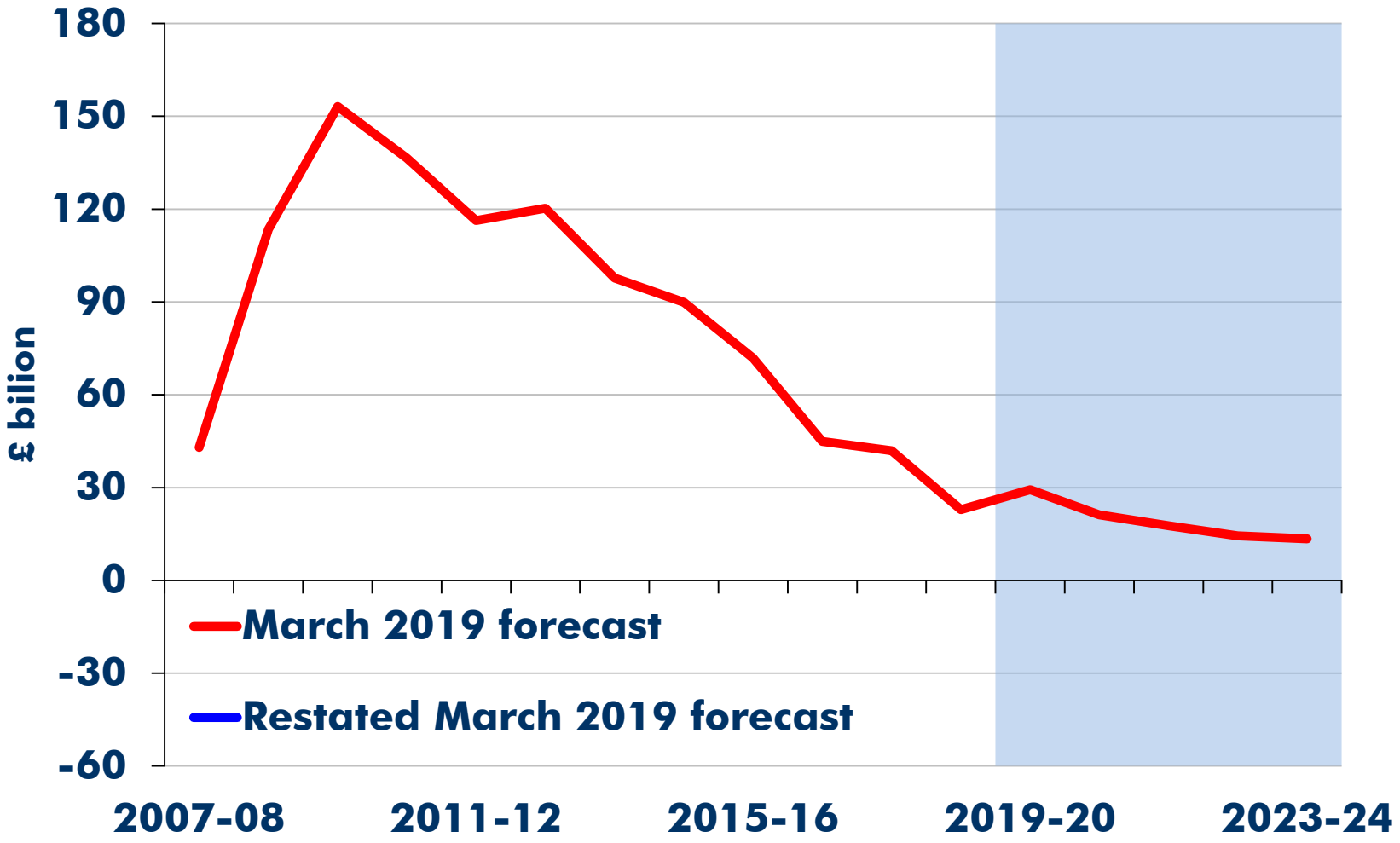
Restated March forecast

- **Next forecast to accompany Budget next year**

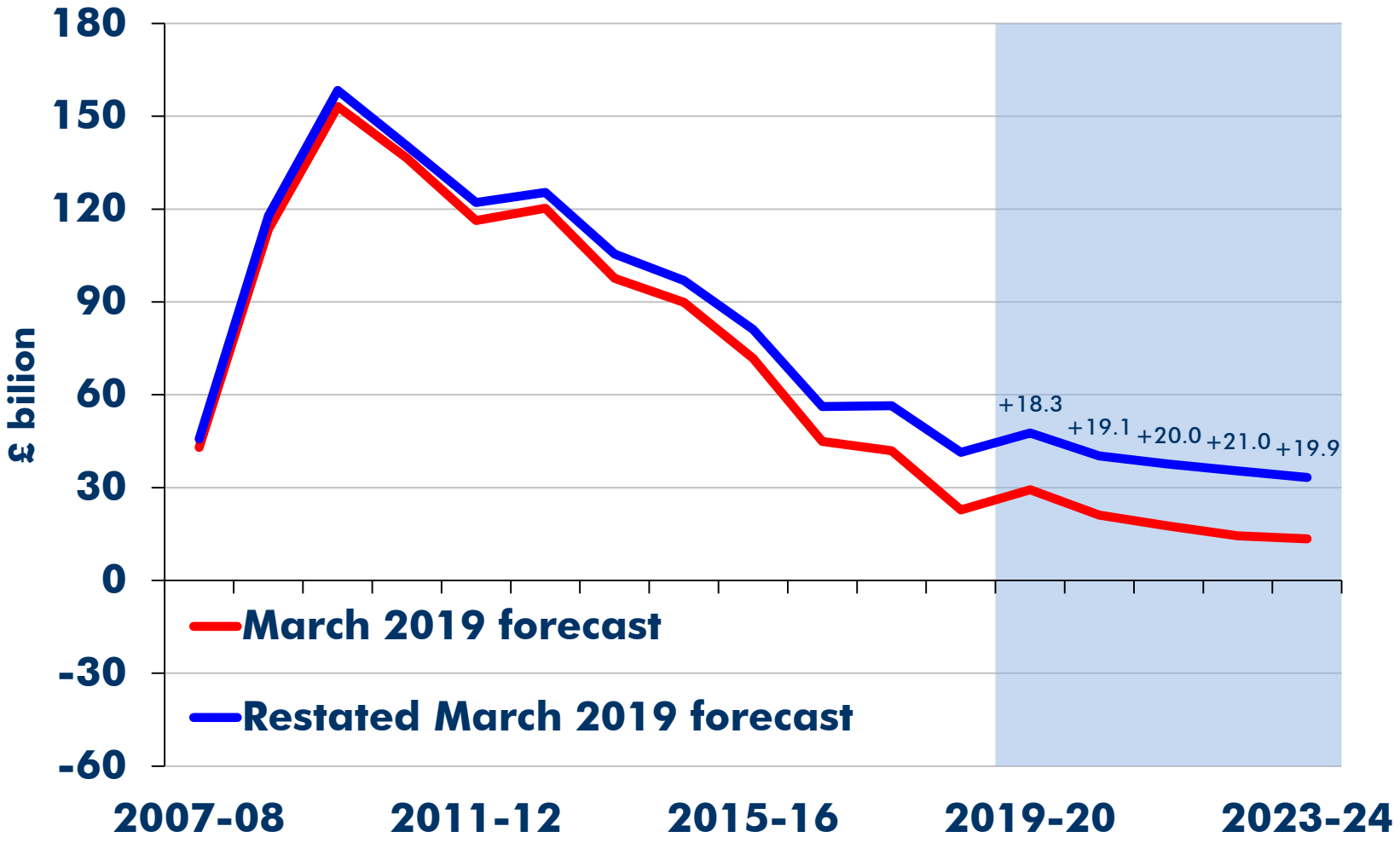
- **Re-establish proper process and robust timetable**
  - Forecast not updated since March
  - Significant policy package in prospect
  - New fiscal rules

- **Restated March forecast published on Monday**
  - Student loans accounting treatment
  - Funded public sector pension schemes
  - Depreciation
  - Corporation tax receipts corrections
  - Lifetime ISA
  - Environmental levies

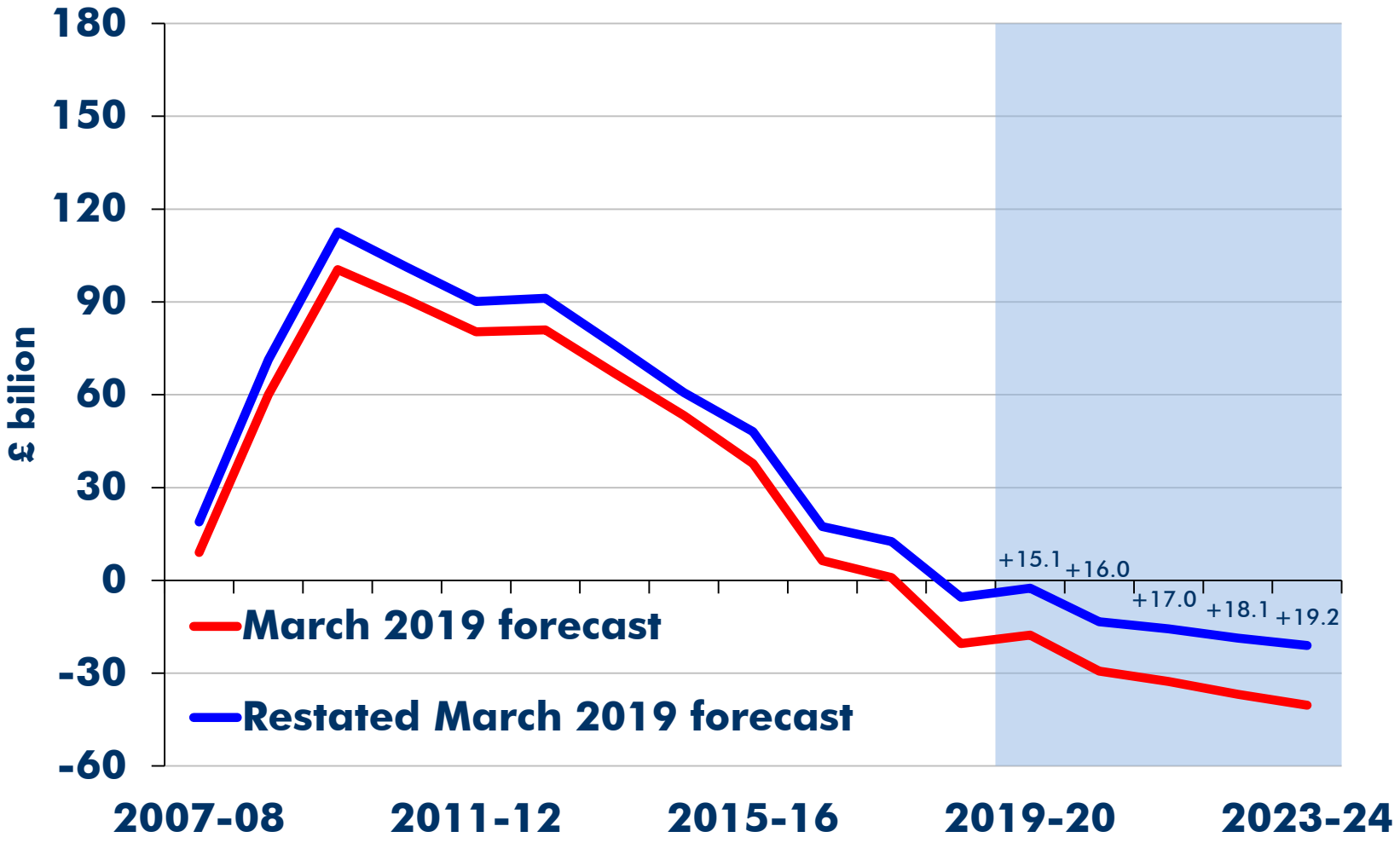
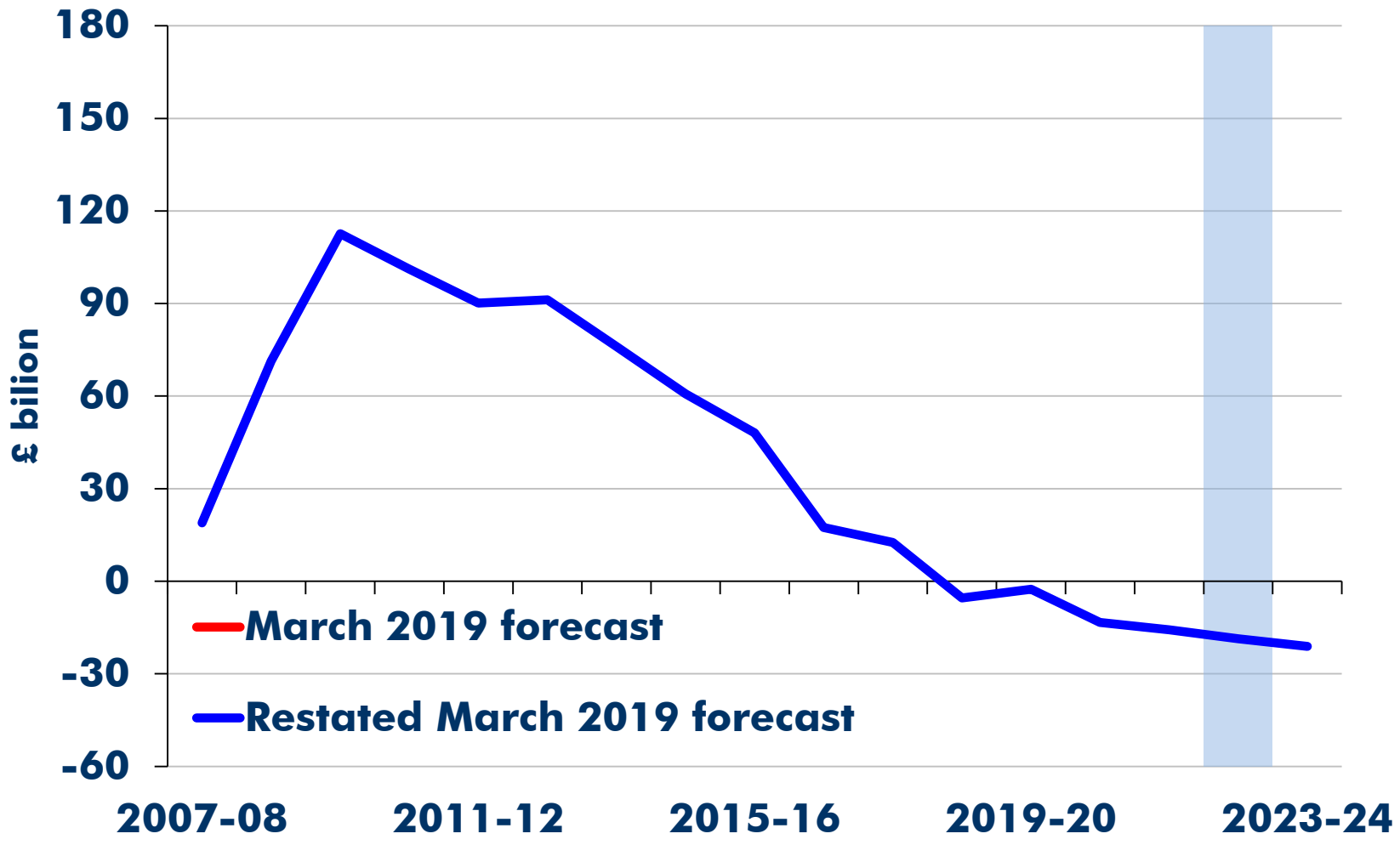
Budget deficit: March



Budget deficit: March restated



Current budget deficit: March restated



Current budget deficit: March restated