Office for Budget Responsibility

18 March 2015

## OBR forecasts and the Government's medium-term spending and fiscal assumptions

Twice a year the Office for Budget Responsibility produces five-year-ahead forecasts for the UK public finances, informed by our best judgement as to how the economy is likely to evolve and based (as Parliament requires) on the current policies of the current government.

To fulfil this task, we have to identify what current government policy is. In many areas of tax and spending this is relatively straightforward. For the tax system, we make a forecast based on the legislated rates and rules for different taxes and on any formal decisions that the Government announces about how they will change. The same applies to welfare spending: we base the forecast on the rates and rules that govern entitlement to different social security benefits and tax credits.

When it comes to setting spending on public services, administration and capital investment, our approach depends on the nature and specificity of the Government's policy commitments:

- the Government sets out detailed multi-year departmental spending plans in periodic 'spending reviews', the latest of which covers spending up to 2015-16. For the years covered by detailed plans, we base our forecasts for these categories of spending on the aggregate Capital and Resource Departmental Expenditure Limits (CDEL and RDEL) given to departments by the Treasury, adjusting them for any an aggregate overspend or underspend that we expect based on information from the Treasury and departments; and
- for those years not yet covered by detailed plans – four out of the five in our latest two forecasts – we need the Government to tell us how much it plans (albeit tentatively) to spend within CDEL and RDEL. During this Parliament, the Government has chosen to do this indirectly, by setting out a provisionally desired path for total spending (Total Managed Expenditure or TME) and sometimes capital and resource spending within it. We can then subtract our bottom-up forecasts for welfare, debt interest and other Annually Managed Expenditure (AME) to derive the Government's implied plans for CDEL and RDEL. The Government currently describes this approach as a *"fiscal assumption… expressed in terms of TME"*.

In most Autumn Statements and Budgets during this Parliament, the 'giveaways' and 'takeaways' that appear on the Treasury's policy decisions scorecards have been largely offsetting. It has been changes in the medium-term spending assumption that have been the main mechanism by which the Government has achieved the outcomes for borrowing that it has wanted in each forecast. That has again been the case in our latest forecast: a change to the assumption for 2019-20 was equivalent to a £20 billion easing of the fiscal stance relative to our December forecast, while the policy measures shown on the scorecard affected borrowing by less than £1 billion in every year. We try to be transparent in showing the effects of changes in the spending assumption the effects of Government decisions.

In this supplementary release, we have compiled the different spending assumptions supplied to us by the Government at each Budget and Autumn Statement since Spending Review 2010, including their description in our *EFO* documents and the Treasury's Budgets and Autumn Statements. Forecasts for TME and implied DELs that result from these assumptions are also shown. (When we report DELs we report them as Public Sector Gross Investment (PSGI) in CDEL and Public Sector Current Expenditure (PSCE) in RDEL, consistent with the aggregates we need to forecast.)

Over time, these have evolved substantially, typically becoming more complex with each iteration. This evolution can be grouped into three phases:

- in our March 2011 forecast, for which the spending assumption applied in only 2015-16, the rule was simply that total spending should be held flat in real terms;
- in December 2011 and March 2012, when the spending assumption extended to 2016-17, the rule defined a real growth rate to be applied beyond the Spending Review period that was expressed in terms of developments during the Spending Review period; and
- from December 2012 onwards, the assumption has continued to be expressed relative to spending growth during the Spending Review period, but has also been described in the Treasury's Budget and Autumn Statement documents as a 'fiscal assumption' rather than a spending assumption, with those documents noting that tax rather than spending could deliver some of the consolidation implied by the assumption.

Another source of additional complexity over time has been the extent to which specific items of spending are included or excluded from the period of calculation, which may be related to the use of the assumption to achieve the Government's desired path for the fiscal consolidation.

One unwelcome feature of this complexity has been the challenge we have faced trying to explain transparently how our forecasts have been produced. In March 2011, we managed to explain the spending assumption in 29 words. In December 2011, when the relative growth rates formulation was introduced, it took 76. By March 2015, that has risen to 428.

More importantly, the growing complexity of the assumption has made it difficult for those trying to scrutinise the Government's medium-term fiscal plans to understand what precisely those plans will mean for the economy and public finances. That is why we provided additional information about the implications of the implied RDEL plans in our December 2014 forecast and why we are publishing this compendium of spending assumptions. It would be much more transparent if governments simply told us what they assume they will spend within CDEL and RDEL in each year.

## March 2011 *Economic and fiscal outlook*

**Text from *EFO***

'Our forecasts for total PSCE and PSGI spending beyond 2014-15 are based on the Government's stated policy that TME will grow in line with general inflation in the economy.' (p.119)

**Text from Treasury Budget document**

'Budget 2011 confirms that TME in 2015-16 will increase in line with general inflation in the economy.' (p.46)

**Years covered by spending assumption in the forecast**

| Outturn | Forecast | | | | | |
|---|---|---|---|---|---|---|
| 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| | ← | | **DEL plans** | | → | **Spending assumption** |

- The OBR forecast covered the period 2010-11 to 2015-16.
- DEL plans covered the period up to 2014-15.
- The assumption covered 2015-16 only.

**TME real growth rate used**

- Flat (0 per cent) real growth rate projected forward for both TME and PSGI after 2014-15.
- This growth rate was applied to the baselines for both TME and PSGI in 2014-15 that **excluded** all the Budget spending measures.

**Interaction with spending measures on scorecard**

- Measures affecting TME in 2014-15 **were not** taken forward using this assumption.
- This meant that measures that affected AME spending in 2015-16 were completely offset in the implied DELs.
- There were no further spending policy measures that affected TME in 2015-16.
- The Budget scorecard bottom line did not include any changes to total spending in 2015-16.

**TME levels**

| | £ billion | | | | | | |
|---|---|---|---|---|---|---|---|
| | Outturn | Forecast | | | | | |
| | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| TME | 669.7 | 694.4 | 710.4 | 720.2 | 730.1 | 743.6 | 763.8 |
| PSGI | 68.9 | 61.6 | 53.7 | 50.7 | 47.7 | 49.1 | 50.4 |
| PSCE | 600.9 | 632.8 | 656.7 | 669.6 | 682.4 | 694.6 | 713.4 |
| PSGI in CDEL | 49.938 | 43.8 | 37.9 | 36.5 | 33.2 | 34.7 | 37.1 |
| PSCE in RDEL | 319.771 | 327.2 | 327.6 | 328.9 | 331.9 | 330.9 | 335.4 |
| Money GDP | 1,405 | 1,473 | 1,544 | 1,625 | 1,717 | 1,814 | 1,915 |
| GDP deflator | 1.8 | 2.9 | 2.9 | 2.5 | 2.7 | 2.7 | 2.7 |
| GDP deflator index 2014-15=100 | 87.4 | 89.9 | 92.5 | 94.8 | 97.4 | 100.0 | 102.7 |

**Cumulative change in TME since 2009-10**

| | Change between 2009-10 and 2015-16 | | |
|---|---|---|---|
| | Nominal (cash) percentage change | Real terms percentage change | Percentage points of GDP |
| TME | 14.0 | -3.0 | -7.8 |
| PSGI | -26.8 | -37.7 | -2.3 |
| PSCE | 18.7 | 1.0 | -5.5 |
| PSGI in CDEL | -25.7 | -36.8 | -1.6 |
| PSCE in RDEL | 4.9 | -10.8 | -5.3 |

## December 2011 *Economic and fiscal outlook*

**Text from *EFO***

'TME falls by an annual average of 0.9 per cent per year in real terms over the Spending Review period from 2010-11 to 2014-15. In 2015-16 and 2016-17, the Government's policy in the Autumn Statement is that TME will fall at -0.9 per cent per year in real terms and PSGI will be flat in real terms, calculated on the basis of a baseline which excludes additional investment expenditure in 2014-15 announced in the Autumn Statement.' (p.139)

**Text from Treasury Autumn Statement document**

'Total Managed Expenditure (TME) will fall by 0.9 per cent a year in real terms, the same rate as set in Spending Review 2010, with a baseline excluding the one-off investments in infrastructure announced in the Autumn Statement.' (p.47)

**Years covered by spending assumption in the forecast**

| Outturn | Forecast | | | | | |
|---|---|---|---|---|---|---|
| 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
| | ← DEL plans → | | | | Spending assumption | |

- The OBR forecast covered the period 2011-12 to 2016-17.
- DEL plans covered the period up to 2014-15.
- The assumption covered 2015-16 and 2016-17.

**TME real growth rate used**

- A negative real growth rate of 0.9 per cent projected forwards for TME after 2014-15. This was the real growth rate over the period from 2010-11 to 2014-15, including **all** the Autumn Statement measures.
- This growth rate was applied to a 2014-15 TME baseline that **included** the Autumn Statement current spending measures, but **excluded** the Autumn Statement capital spending measures.
- Flat (0 per cent) real growth projected forwards for PSGI after 2014-15.
- This growth rate was applied to a 2014-15 PSGI baseline that **excluded** the Autumn Statement capital spending measures.

**Interaction with spending measures on scorecard**

- The Autumn Statement current spending measures affecting 2014-15 **were** taken forward by the TME growth assumption.
- The Autumn Statement capital spending measures affecting 2014-15 **were not** taken forward by the PSGI growth assumption.
- There were no further spending policy measures that affected TME or PSGI in 2015-16 or 2016-17.
- The Budget scorecard bottom line included changes to total spending in 2015-16 and 2016-17 that were measured as the difference between the new spending assumptions, applied as specified above, and the (flat real growth) spending assumptions from the 2011 Budget, if those had been applied to the latest forecast for the spending baseline in 2014-15, on a pre-measures basis.

**TME levels**

| | £ billion | | | | | | |
|---|---|---|---|---|---|---|---|
| | Outturn | Forecast | | | | | |
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
| TME | 688.5 | 702.6 | 714.5 | 723.1 | 736.4 | 746.6 | 758.7 |
| PSGI | 59.0 | 50.2 | 47.9 | 45.4 | 46.2 | 45.7 | 46.8 |
| PSCE | 629.5 | 652.4 | 666.7 | 677.7 | 690.2 | 701.0 | 711.9 |
| PSGI in CDEL | 43.9 | 36.7 | 35.7 | 34.0 | 35.6 | 35.8 | 37.3 |
| PSCE in RDEL | 326.3 | 326.7 | 328.2 | 330.9 | 329.7 | 326.1 | 325.2 |
| Money GDP | 1,477 | 1,521 | 1,577 | 1,654 | 1,743 | 1,842 | 1,945 |
| GDP deflator | 2.8 | 2.6 | 2.7 | 2.5 | 2.5 | 2.5 | 2.5 |
| GDP deflator index 2014-15=100 | 90.3 | 92.7 | 95.2 | 97.6 | 100.0 | 102.5 | 105.1 |

Cumulative change in TME since 2009-10

| | Change between 2009-10 and 2016-17 | | |
|---|---|---|---|
| | Nominal (cash) percentage change | Real terms percentage change | Percentage points of GDP |
| TME | 13.4 | -5.2 | -8.8 |
| PSGI | -30.7 | -42.1 | -2.4 |
| PSCE | 18.3 | -1.1 | -6.3 |
| PSGI in CDEL | -25.2 | -37.5 | -1.6 |
| PSCE in RDEL | 1.8 | -14.8 | -6.1 |

## March 2012 *Economic and fiscal outlook*

**Text from *EFO***

‘The Government’s stated policy assumption is unchanged since the Autumn Statement: TME falls at the same average real rate as the Spending Review period (now 0.8 per cent per year in real terms) and PSGI is flat in real terms, calculated on the basis of a baseline which excludes the additional investment expenditure in 2014-15 announced in the Autumn Statement.’ (p.123)

**Text from Treasury Budget document**

‘At Autumn Statement 2011 the Government set plans for Total Managed Expenditure to grow, in real terms, at the same rate in 2015–16 and 2016–17 as in the Spending Review 2010 period, from a baseline that excludes the one-off investment in infrastructure announced at Autumn Statement 2011.’ (p.54)

**Years covered by spending assumption in the forecast**

| Outturn | Forecast | | | | | |
|---|---|---|---|---|---|---|
| 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
| | ← DEL plans → | | | | Spending assumption | |

- The OBR forecast covered the period 2011-12 to 2016-17.
- DEL plans covered the period up to 2014-15.
- The assumption covered 2015-16 and 2016-17.

**TME real growth rate used**

- A negative real growth rate of 0.8 per cent projected forwards for TME after 2014-15. This was the real growth rate over the period from 2010-11 to 2014-15, **including** the Budget spending measures but **excluding** the 2011 Autumn Statement capital measures.
- This growth rate was applied to a 2014-15 TME baseline that **included** all the Budget spending measures, but **excluded** the 2011 Autumn Statement capital spending measures.
- Flat (0 per cent) real growth projected forwards for PSGI after 2014-15.
- This growth rate was applied to a PSGI baseline in 2014-15 that **included** all the Budget spending measures, but **excluded** the 2011 Autumn Statement capital spending measures.

**Interaction with spending measures on scorecard**

- Measures affecting TME in 2014-15 **were** taken forward by the TME growth assumption.
- Measures affecting PSGI in 2014-15 **were** taken forward by the PSGI growth assumption.
- There were no further spending policy measures that affected TME or PSGI in 2015-16 or 2016-17.
- The Budget scorecard bottom line included changes to total spending in 2015-16 and 2016-17 that were measured as the difference between:
    - applying the latest spending assumptions, as specified above, to the 2014-15 TME and PSGI baselines including the Budget spending measures; and
    - applying the latest spending assumptions, as specified above, to the 2014-15 TME and PSGI pre-measures baselines.

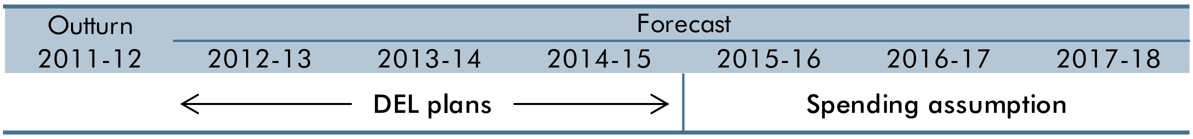
**TME levels**

| | £ billion | | | | | | |
|---|---|---|---|---|---|---|---|
| | Outturn | Forecast | | | | | |
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
| TME [1] | 687.6 | 696.4 | 683.4 | 720.0 | 733.5 | 744.0 | 756.3 |
| PSGI [1] | 58.4 | 49.1 | 18.8 | 46.4 | 47.0 | 46.5 | 47.7 |
| PSCE | 629.2 | 647.3 | 664.6 | 673.6 | 686.4 | 697.5 | 708.6 |
| PSGI in CDEL | 43.6 | 35.0 | 35.7 | 33.9 | 35.1 | 34.1 | 34.9 |
| PSCE in RDEL | 326.3 | 322.9 | 328.1 | 330.3 | 328.6 | 323.0 | 320.2 |
| Money GDP | 1,478 | 1,521 | 1,576 | 1,652 | 1,740 | 1,839 | 1,941 |
| GDP deflator | 2.7 | 2.2 | 2.7 | 2.5 | 2.5 | 2.5 | 2.5 |
| GDP deflator index 2014-15=100 | 90.7 | 92.7 | 95.2 | 97.6 | 100.0 | 102.5 | 105.1 |

[1] These figures were reduced in 2012-13 by the receipt of £28 billion of Royal Mail assets (as recorded under ESA95).

| | | Change between 2009-10 and 2016-17 | | |
|---|---|---|---|---|
| | | Nominal (cash) percentage change | Real terms percentage change | Percentage points of GDP |
| Cumulative change in TME since 2009-10 | TME | 12.9 | -5.1 | -8.6 |
| | PSGI | -29.8 | -41.0 | -2.4 |
| | PSCE | 17.8 | -1.0 | -6.3 |
| | PSGI in CDEL | -30.0 | -41.2 | -1.7 |
| | PSCE in RDEL | 0.2 | -15.8 | -6.2 |

## December 2012 *Economic and fiscal outlook*

| | |
|---|---|
| Text from *EFO* | 'TME should continue to fall at the same average real rate as over the Spending Review period, with PSGI flat in real terms. The Government has specified a number of exclusions when making these calculations.[7] The Government has decided in this Autumn Statement to roll this assumption forward to 2017-18.' (p.130)<br>[7] The Government has stated that the growth rate should be projected forward using a baseline that excludes our forecast underspends in DEL, the spending measures announced in this Autumn Statement, and the capital measures announced in last year's Autumn Statement. It includes our estimates of the effects on the forecast from the ONS's decisions to classify Bradford and Bingley and Northern Rock (Asset Management) within central government. The TME baseline in 2010-11 reflects ONS's published outturn statistics which have not been revised yet to include these effects. This discontinuity temporarily increases the real growth rate for this forecast. |
| Text from Treasury Autumn Statement document | 'At Autumn Statement 2011 the Government set out that TME would continue to fall at the same rate in 2015-16 and 2016-17 as in the last spending review period. One-off capital measures announced at Autumn Statement 2011, the measures announced at this Autumn Statement and the OBR's forecast Allowance for Shortfall are excluded from the calculation of the rate of reduction for overall spending.' (p.59)<br>'The Government has set a fiscal assumption that TME in 2017-18 will continue to fall at the same rate as over the Spending Review 2010 period. This fiscal assumption reduces TME by £4.6 billion compared to holding total expenditure flat in real terms from 2016-17 onwards. The fiscal consolidation for 2017-18 is expressed as a reduction in TME. It would, of course, be possible to do more of this further consolidation through tax instead.' (p.61)<br>'The Government will also hold the planned level of public sector gross investment constant in real terms from 2014-15 onwards.' (p.24) |
| Years covered by fiscal assumption in the forecast |  <br>• The OBR forecast covered the period 2012-13 to 2017-18.<br>• DEL plans covered the period up to 2014-15.<br>• The assumption covered the period 2015-16 to 2017-18. |
| TME real growth rate used | • A negative real growth rate of 0.6 per cent projected forwards for TME after 2014-15. This was the real growth rate over the period from 2010-11 to 2014-15, **excluding** the Autumn Statement spending measures, **excluding** the forecast DEL underspends, and **excluding** the 2011 Autumn Statement capital measures.[1,2]<br>• This growth rate was applied to a 2014-15 TME baseline that **excluded** the Autumn Statement spending measures, **excluded** the DEL underspend assumptions, and **excluded** the 2011 Autumn Statement capital spending measures.<br>• Flat (0 per cent) real growth projected forwards for PSGI after 2014-15.<br>• This growth rate was applied to a PSGI baseline in 2014-15 that **excluded** the Autumn Statement spending measures, **excluded** the DEL underspend assumptions, and **excluded** the 2011 Autumn Statement capital spending measures. |

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[1] We included underspends against DEL plans for future years (where DEL plans had already been set) for the first time in our December 2012 *Economic and fiscal outlook (EFO).*

[2] The real growth over the period from 2010-11 to 2014-15 was temporarily increased in our December 2012 *EFO* because our forecast for 2014-15 included our estimates of the effects from ONS's announcement that it had decided to classify Bradford and Bingley and Northern Rock (Asset Management) within central government, which increased spending in 2014-15. This increased the real growth over the period because ONS had not yet revised TME outturn in 2010-11 to include these effects.

**Interaction with spending measures on scorecard**

- Measures affecting TME in 2014-15 **were not** taken forward using this assumption.
- This meant that measures that affected AME spending in the period 2015-16 to 2017-18 were completely offset in the implied DELs.
- There were no further spending policy measures that affected TME in the period 2015-16 to 2017-18
- The Budget scorecard bottom line did not include any changes to total spending in 2015-16 or 2016-17.
- The Budget scorecard bottom line included the change to spending in 2017-18 that was calculated as the difference between:
    - applying the latest spending assumption for TME, as specified above, to spending as calculated by the spending assumption for TME in 2016-17; and
    - applying flat (0 per cent) real growth to spending as calculated by the spending assumption for TME in 2016-17.

**TME levels**

| | £ billion | | | | | | |
|---|---|---|---|---|---|---|---|
| | Outturn | Forecast | | | | | |
| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| TME [1] | 690.9 | 674.3 | 719.9 | 731.0 | 744.7 | 755.1 | 765.5 |
| PSGI [1] | 47.8 | 13.7 | 48.0 | 49.5 | 47.3 | 48.3 | 49.2 |
| PSCE | 643.1 | 660.7 | 671.9 | 681.5 | 697.4 | 706.9 | 716.2 |
| PSGI in CDEL [1] | 34.8 | 2.3 | 34.3 | 36.2 | 33.8 | 34.3 | 35.2 |
| PSCE in RDEL | 322.6 | 322.4 | 321.1 | 317.6 | 318.7 | 313.7 | 306.7 |
| Money GDP | 1,529 | 1,564 | 1,620 | 1,689 | 1,763 | 1,848 | 1,939 |
| GDP deflator | 2.4 | 2.5 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| GDP deflator index 2014-15=100 | 93.8 | 96.1 | 98.0 | 100.0 | 102.0 | 104.1 | 106.2 |

[1] These figures were reduced in 2012-13 by the receipt of £28 billion of Royal Mail assets (as recorded under ESA95).

**Cumulative change in TME since 2009-10**

| | Change between 2009-10 and 2017-18 | | |
|---|---|---|---|
| | Nominal (cash) percentage change | Real terms percentage change | Percentage points of GDP |
| TME | 14.0 | -1.6 | -7.9 |
| PSGI | -27.5 | -37.4 | -2.3 |
| PSCE | 18.7 | 2.4 | -5.7 |
| PSGI in CDEL | -29.1 | -38.8 | -1.7 |
| PSCE in RDEL | -3.9 | -17.1 | -6.7 |

## March 2013 *Economic and fiscal outlook*

<table>
<tr><td>Text from <i>EFO</i></td><td>'Beyond the current Spending Review period, our projections for the period 2015-16 to 2017-18 are based on the Government's stated policy assumption that TME should continue to fall at the same average real rate as over the Spending Review period, with PSGI flat in real terms. The Government has specified a number of exclusions when making these calculations'.[4] (p.119)<br>[4] The Government has stated that the growth rate should be projected forward using a baseline that excludes our forecast underspends in DEL, all the spending measures announced in the Autumn Statement 2012 and in the March Budget 2013, and the capital measures announced in the Autumn Statement 2011. Growth over the Spending Review period includes the capital measures announced in the Autumn Statement 2011, but excludes our forecast underspends in DEL, and excludes the measures announced in the Autumn Statement 2012 and in the March Budget 2013.</td></tr>
<tr><td>Text from Treasury Budget document</td><td>'In line with previous policy, this Budget sets a fiscal assumption that TME in 2016-17 and 2017-18 will continue to fall in real terms at the same rate as over the Spending Review 2010 period.[34] Fiscal consolidation for 2016-17 and 2017-18 is expressed as a reduction in TME. It would, of course, be possible to do more of this further consolidation through tax instead.' (p.25)<br>[34] The Government's fiscal assumption excludes the effect of measures announced at Budget 2013 and Autumn Statement 2012, all capital measures announced at Autumn Statement 2011, and the OBR's underspends forecast.</td></tr>
<tr><td>Years covered by fiscal assumption in the forecast</td><td>
<table>
<tr><td>Outturn</td><td colspan="6">Forecast</td></tr>
<tr><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td></td><td colspan="3">← <b>DEL plans</b> →</td><td colspan="3"><b>Spending assumption</b></td></tr>
</table>
<br>• OBR forecast covered the period 2012-13 to 2017-18.<br>• DEL plans covered the period up to 2014-15.<br>• The assumption covered the period 2015-16 to 2017-18.</td></tr>
<tr><td>TME real growth rate used</td><td>• A negative real growth rate of 0.4 per cent projected forwards for TME after 2014-15. This was the real growth rate over the period from 2010-11 to 2014-15, <b>excluding</b> the forecast DEL underspends, <b>excluding</b> the Budget spending measures, and <b>excluding</b> the 2012 Autumn Statement measures.[3,4]<br>• This growth rate was applied to a 2014-15 TME baseline that <b>excluded</b> the DEL underspend assumptions, <b>excluded</b> the Budget spending measures, <b>excluded</b> the 2012 Autumn Statement measures, and <b>excluded</b> the 2011 Autumn Statement capital spending measures.<br>• Flat (0 per cent) real growth projected forwards for PSGI after 2014-15.<br>• This growth rate was applied to a PSGI baseline in 2014-15 that <b>excluded</b> the DEL underspend assumptions, <b>excluded</b> the Budget spending measures, <b>excluded</b> the 2012 Autumn Statement measures, and <b>excluded</b> the 2011 Autumn Statement capital spending measures.</td></tr>
<tr><td>Interaction with spending measures on scorecard</td><td>• Measures affecting TME in 2014-15 <b>were not</b> taken forward using this assumption.<br>• This meant that measures that affected AME spending in the period 2015-16 to 2017-18 were completely offset in the implied DELs.<br>• One additional measure affected PSGI in the period 2015-16 to 2017-18, which increased PSGI by £3 billion in each year. These measures were offset by reductions in PSCE in each year.<br>• The Budget scorecard bottom line did not include any changes to total spending over the period from 2015-16 to 2017-18.</td></tr>
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[3] Note that this growth rate **included** the 2011 Autumn Statement measures.

[4] This growth rate was reduced, compared to the 2012 Autumn Statement, by the ONS revision to TME in 2010-11 to include the effects from their decision to classify Bradford and Bingley and Northern Rock (Asset Management) within central government, which increased spending in 2010-11. (We had already anticipated the effects of this reclassification in our December 2012 *EFO,* which had already increased our forecast for spending in 2014-15.)

TME levels

| | £ billion | | | | | | |
|---|---|---|---|---|---|---|---|
| | Outturn | Forecast | | | | | |
| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| TME [1] | 693.6 | 673.3 | 720.0 | 730.4 | 744.7 | 754.9 | 765.1 |
| PSGI [1] | 49.8 | 16.1 | 47.2 | 50.4 | 50.4 | 51.3 | 52.1 |
| PSCE | 643.8 | 657.2 | 672.9 | 680.0 | 694.2 | 703.7 | 713.0 |
| PSGI in CDEL [1] | 34.8 | 3.3 | 33.7 | 36.9 | 36.1 | 36.5 | 36.7 |
| PSCE in RDEL | 322.6 | 319.5 | 320.8 | 317.2 | 314.2 | 307.4 | 299.1 |
| Money GDP | 1,526 | 1,546 | 1,595 | 1,658 | 1,728 | 1,806 | 1,889 |
| GDP deflator | 2.1 | 1.3 | 2.3 | 1.9 | 1.8 | 1.7 | 1.7 |
| GDP deflator index 2014-15=100 | 94.7 | 95.9 | 98.1 | 100.0 | 101.8 | 103.5 | 105.3 |

[1] These figures were reduced in 2012-13 by the receipt of £28 billion of Royal Mail assets (as recorded under ESA95).

Cumulative change in TME since 2009-10

| | Change between 2009-10 and 2017-18 | | |
|---|---|---|---|
| | Nominal (cash) percentage change | Real terms percentage change | Percentage points of GDP |
| TME | 13.9 | 0.3 | -6.9 |
| PSGI | -23.3 | -32.5 | -2.0 |
| PSCE | 18.1 | 4.0 | -4.9 |
| PSGI in CDEL | -26.1 | -34.9 | -1.6 |
| PSCE in RDEL | -6.3 | -17.5 | -6.7 |

### December 2013 *Economic and fiscal outlook*

<table>
<tr><td>Text from <em>EFO</em></td><td>‘Our TME projections for 2016-17 to 2018-19 are based on the Government’s stated policy assumption for TME growth. There are now two parts to the assumption:<br>• for 2016-17 and 2017-18, TME should continue to fall at the same average real rate as over the period covered by SR10 and SR13, with PSGI flat in real terms; [7] and<br>• for 2018-19, TME should be held flat in real terms, with PSGI growing in line with nominal GDP.’ (p.120)<br>[7] The Government has stated that both the growth rate and the baseline should be calculated excluding our projected underspends in DEL and all policy measures announced in the Autumn Statement.</td></tr>
<tr><td>Text from Treasury Autumn Statement document</td><td>‘Following Spending Round 2013 and in line with previous policy, TME in 2016-17 and 2017-18 will continue to fall in real terms at the same rate as over this Parliament. Fiscal consolidation for 2016-17, 2017-18 and 2018-19 is expressed as a reduction in TME. It would, of course, be possible to do more of this further consolidation through tax instead.’ (p.80)<br>‘The government has set a fiscal assumption that Total Managed Expenditure (TME) in 2018-19 will be flat in real terms. This represents a balanced response to forecast economic growth alongside the continued need for spending control to ensure TME remains at sustainable levels. However, the government will continue to prioritise capital investment over the medium to longer term so Public Sector Gross Investment (PSGI) will increase in line with GDP from 2018-19. ’ (p.32)<br>[3] ‘The TME baseline for calculating assumed spending in the years beyond 2015-16 excludes the OBR’s Allowance for Shortfall and the effect of all measures announced at Autumn Statement 2013’ (Table 2.3, p.81)</td></tr>
<tr><td>Years covered by fiscal assumption in the forecast</td><td>
<table>
<tr><th>Outturn</th><th colspan="6">Forecast</th></tr>
<tr><th>2012-13</th><th>2013-14</th><th>2014-15</th><th>2015-16</th><th>2016-17</th><th>2017-18</th><th>2018-19</th></tr>
<tr><td></td><td colspan="3">← <strong>DEL plans</strong> →</td><td colspan="3"><strong>Spending assumption</strong></td></tr>
</table>
• OBR forecast covered the period 2013-14 to 2018-19.<br>• DEL plans covered the period up to 2015-16.<br>• The assumption covered the period 2016-17 to 2018-19.</td></tr>
<tr><td>TME real growth rate used</td><td>• A negative real growth rate of 0.5 per cent projected forwards for TME after 2015-16, to calculate TME in 2016-17 and 2017-18. This was the real growth rate over the period from 2010-11 to 2015-16, <strong>excluding</strong> the forecast DEL underspends, and <strong>excluding</strong> the Autumn Statement spending measures.<br>• This growth rate was applied to a 2015-16 TME baseline that <strong>excluded</strong> the DEL underspend assumptions, and <strong>excluded</strong> the Autumn Statement spending measures.<br>• After 2017-18, TME projected forward by applying flat (0 per cent) real growth to the TME baseline in 2017-18 that was calculated by applying the spending assumption above.<br>• Flat (0 per cent) real growth projected forwards for PSGI after 2015-16, to calculate PSGI in 2016-17 and 2017-18.<br>• This growth rate was applied to a PSGI baseline in 2015-16 that <strong>excluded</strong> the DEL underspend assumptions, and <strong>excluded</strong> the Autumn Statement spending measures.<br>• After 2017-18, PSGI projected forward by applying nominal GDP growth to the PSGI baseline in 2017-18 that was calculated by applying the spending assumption above.</td></tr>
<tr><td>Interaction with spending measures on scorecard</td><td>• Measures affecting TME in 2015-16 <strong>were not</strong> taken forward using these assumptions.<br>• This meant that measures that affected AME spending in the period 2016-17 to 2018-19 were completely offset in the implied DELs.<br>• The Budget scorecard bottom line did not include any changes to total spending over the period from 2016-17 to 2018-19.</td></tr>
</table>

TME levels

| | £ billion | | | | | | |
|---|---|---|---|---|---|---|---|
| | Outturn | Forecast | | | | | |
| | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
| TME[1] | 701.9 | 717.8 | 730.5 | 744.0 | 756.3 | 763.7 | 774.6 |
| PSGI[1] | 44.7 | 48.2 | 51.8 | 52.2 | 54.1 | 53.2 | 53.4 |
| PSCE | 657.2 | 669.7 | 678.7 | 691.8 | 702.2 | 710.5 | 721.3 |
| PSGI in CDEL[2] | 32.2 | 32.6 | 37.1 | 36.6 | 38.0 | 37.3 | 38.8 |
| PSCE in RDEL[2] | 316.5 | 316.4 | 316.6 | 312.6 | 305.7 | 294.1 | 287.4 |
| Money GDP | 1,570 | 1,642 | 1,712 | 1,777 | 1,857 | 1,940 | 2,026 |
| GDP deflator | 1.8 | 2.0 | 2.1 | 1.5 | 1.8 | 1.7 | 1.7 |
| GDP deflator index 2014-15=100 | 95.9 | 97.9 | 100.0 | 101.5 | 103.3 | 105.1 | 106.9 |

[1] Excludes Royal Mail and APF spending.

[2] The DEL data in the December 2013 EFO reflected the introduction of the Treasury's new 'OSCAR' spending database, which affected the split of data classified as PSCE in RDEL or PSCE in AME, and the split of data classified as PSGI in CDEL or PSGI in AME.

Cumulative change in TME since 2009-10

| | Change between 2009-10 and 2018-19 | | |
|---|---|---|---|
| | Nominal (cash) percentage change | Real terms percentage change | Percentage points of GDP |
| TME | 14.9 | 1.4 | -8.8 |
| PSGI | -21.9 | -31.1 | -2.1 |
| PSCE | 19.1 | 5.1 | -6.7 |
| PSGI in CDEL | -21.8 | -31.1 | -1.6 |
| PSCE in RDEL | -9.6 | -20.3 | -8.0 |

<table>
<tr><td>Text from<br>*EFO*</td><td>‘Our TME projections for 2016-17 to 2018-19 are based on the Government’s stated policy assumption for TME growth. As in the Autumn Statement last year, there are two parts to the assumption:<br>• for 2016-17 and 2017-18, TME should continue to fall at the same average real rate as over the period covered by SR10 and SR13, with PSGI flat in real terms; and<br>• for 2018-19, TME should be held flat in real terms, with PSGI growing in line with nominal GDP.<br>For this forecast, the Government has changed the way the fall in TME over the SR10 and SR13 period is measured. As before, the Government states that both the growth rate and the baseline should be calculated excluding from 2015-16 our projected underspends in DEL and all policy measures announced in Autumn Statement 2013 and this Budget. However, the Government now also states that the 2010-11 base year should exclude underspends in DEL and all spending measures announced in the June 2010 Budget.’</td></tr>
<tr><td>Text from Treasury Budget document</td><td>‘In line with previous policy, Budget 2014 confirms that the fiscal assumption, expressed in terms of Total Managed Expenditure (TME), will continue to fall in 2016-17 and 2017-18 at the same rate as over this Parliament. As set out in Autumn Statement 2013, the fiscal assumption expressed as TME will be held flat in real terms in 2018-19.<br>The TME growth rate is now calculated on a consistent basis, comparing the 2010-11 plans inherited by this government to 2015-16 plans.’ (p.24)<br>[3] ‘The 2010-11 baseline for calculating the TME growth rule excludes in year spending reductions announced at June Budget 2010 and departmental underspends against 2010-11 plans. The 2015-16 baseline excludes the OBR’s forecast Allowance for Shortfall and the effect of all policy measures announced at Autumn Statement 2013 and Budget 2014. Following the application of this growth rule, TME from 2016-17 onwards has been reduced to take account of Budget measures: pensions revaluations and ongoing savings from reductions set out at Autumn Statement 2013.’ (Table 2.3, p.60)</td></tr>
<tr><td>Years covered by fiscal assumption in the forecast</td><td><table>
<tr><td>Outturn</td><td colspan="6">Forecast</td></tr>
<tr><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td></td><td colspan="3">← **DEL plans** →</td><td colspan="3">**Spending assumption**</td></tr>
</table>
• OBR forecast covered the period 2013-14 to 2018-19.<br>• DEL plans covered the period up to 2015-16.<br>• The assumption covered the period 2016-17 to 2018-19.</td></tr>
<tr><td>TME real growth rate used</td><td>• A negative real growth rate of 0.7 per cent projected forwards for TME after 2015-16, to calculate TME in 2016-17 and 2017-18. This was the real growth rate over the period from 2010-11 to **2015-16**, with:<br>– 2015-16 adjusted to **exclude** the forecast DEL underspends, **exclude** the Budget spending measures and **exclude** the 2013 Autumn Statement spending measures; and<br>– 2010-11 adjusted to **exclude** the outturn DEL underspends, and **exclude** the June Budget 2010 spending measures.<br>• This growth rate was applied to a 2015-16 TME baseline that **excluded** the DEL underspend assumptions, **excluded** the budget spending measures, and **excluded** the 2013 Autumn Statement spending measures.<br>• After 2017-18, TME projected forward by applying flat (0 per cent) real growth to the TME baseline in 2017-18 that was calculated by applying the spending assumption above.<br>• Flat (0 per cent) real growth projected forwards for PSGI after 2015-16, to calculate PSGI in 2016-17 and 2017-18.<br>• This growth rate was applied to a PSGI baseline in 2015-16 that **excluded** the DEL underspend assumptions, **excluded** the Budget spending measures and **excluded** the 2013 Autumn Statement spending measures.<br>• After 2017-18, PSGI projected forward by applying nominal GDP growth to the PSGI baseline in 2017-18 that was calculated by applying the spending assumption above.</td></tr>
</table>

### March 2014 *Economic and fiscal outlook*

**Interaction with spending measures on scorecard**

- Measures affecting TME in 2015-16 **were not** taken forward using these assumptions.
- Two spending measures affected the Budget scorecard bottom line over the period from 2016-17 to 2018-19. One measure was for the revaluation of some of the public service pension schemes, and the other measure was termed ‘extending the Autumn Statement savings’. Both measures reduced TME.

**TME levels**

| | £ billion | | | | | | |
|---|---|---|---|---|---|---|---|
| | Outturn | Forecast | | | | | |
| | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
| TME | 701.7 | 715.5 | 732.0 | 743.4 | 752.5 | 759.4 | 772.9 |
| PSGI | 45.4 | 47.6 | 52.1 | 51.9 | 53.8 | 53.0 | 53.5 |
| PSCE | 656.3 | 667.9 | 679.9 | 691.5 | 698.8 | 706.4 | 719.3 |
| PSGI in CDEL | 32.2 | 33.3 | 37.4 | 36.7 | 38.0 | 37.2 | 39.1 |
| PSCE in RDEL | 316.5 | 315.9 | 317.8 | 312.5 | 302.5 | 292.1 | 289.1 |
| Money GDP | 1,571 | 1,644 | 1,721 | 1,788 | 1,871 | 1,956 | 2,042 |
| GDP deflator | 1.6 | 1.8 | 2.2 | 1.6 | 1.9 | 1.9 | 2.0 |
| GDP deflator index 2014-15=100 | 96.1 | 97.8 | 100.0 | 101.6 | 103.5 | 105.4 | 107.6 |

**Cumulative change in TME since 2009-10**

| | Change between 2009-10 and 2018-19 | | |
|---|---|---|---|
| | Nominal (cash) percentage change | Real terms percentage change | Percentage points of GDP |
| TME | 14.8 | 1.0 | -9.2 |
| PSGI | -21.8 | -31.2 | -2.2 |
| PSCE | 18.9 | 4.6 | -7.0 |
| PSGI in CDEL | -21.4 | -30.8 | -1.6 |
| PSCE in RDEL | -9.1 | -20.0 | -8.1 |

## December 2014 *Economic and fiscal outlook*

<table>
<tr><td>Text from <em>EFO</em></td><td>
<p>'The Government's chosen policy assumption for the growth of TME between 2016-17 and 2019-20 at this Autumn Statement is:</p>
<ul>
<li>for 2016-17 and 2017-18: TME should fall in real terms at the same rate as over the 2010-11 to 2014-15 period covered by Spending Review 2010. For 2010-11, the relevant measure of TME should exclude underspending against plans and the in-year spending reductions announced in the June 2010 Budget, but include the retrospective effect of our decision to show spending gross of the negative tax element of tax credits, consistent with the prospective treatment under ESA10. For 2014-15, the measure of TME should exclude our allowance for shortfall. It should also be excluded for the measure of TME in 2015-16 from which the real growth rates are applied. The effect of the policy measures should also be taken into account, while the effect of the historic adjustment to the UK's GNI-based contributions to the EU in 2014-15 and associated rebate in 2015-16 should be excluded. Within TME, PSGI should be held flat in real terms from a level in 2015-16 that includes our allowance for shortfall; and</li>
<li>for 2018-19 and 2019-20: TME should be held flat in real terms from a baseline that continues to include the effect of Budget measures. Within TME, PSGI should grow in line with nominal GDP. ' (p.134)</li>
</ul>
</td></tr>
<tr><td>Text from Treasury Autumn Statement document</td><td>
<p>'The government's planned consolidation in the next Parliament is reflected in the fiscal assumption that TME will fall in real terms in 2016-17 and 2017-18 at the same rate as between 2010-11 and 2014-15. The government's neutral assumption is that TME will be held flat in real terms in 2018-19. Autumn Statement extends the neutral fiscal assumption to 2019-20, with TME held flat in real terms for a further year.'(p.28)</p>
<p>'Total Managed Expenditure (TME) in 2018-19 and 2019-20 will be held flat in real terms. The government will continue to prioritise capital investment over the medium to longer term. Therefore, within the overall TME assumption, public sector gross investment (PSGI) will grow in line with GDP from 2018-19. Following Spending Round 2013 and in line with previous policy, TME in 2016-17 and 2017-18 will fall in real terms at the same rate as the period 2010-11 to 2014-15. The fiscal assumption for 2016-17, 2017-18, 2018-19 and 2019-20 is expressed in terms of TME. It would be possible, of course, to do some consolidation through tax instead.' (p.66)</p>
<p>[3] 'The 2010-11 baseline for calculating the TME growth rule excludes in-year spending reductions announced at June Budget 2010 and departmental underspends against 2010-11 plans. The 2014-15 baseline for calculating the TME growth rule excludes the OBR's forecast Allowance for Shortfall. The TME growth rule is applied to a 2015-16 baseline which excludes the OBR's Allowance for Shortfall and the effect of all policy measures announced at Autumn Statement 2013, Budget 2014 and Autumn Statement 2014. Following the application of the growth rule, TME from 2016-17 onwards has been adjusted to take account of the same measures as at Budget 2014 and the following Autumn Statement 2014 measures: Pool Reinsurance, Public Service Pensions revaluations and funding for advanced care in GP-led services. The effect of the historic adjustments to the UK's GNI-based contributions to the EU, accrued to 2014-15, and the associated rebate in 2015-16 are excluded from the growth rule. ' (Table 2.3, p.67)</p>
</td></tr>
<tr><td>Years covered by fiscal assumption in the forecast</td><td>
<table>
<tr><td>Outturn</td><td colspan="6">Forecast</td></tr>
<tr><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td><td>2019-20</td></tr>
<tr><td colspan="3"><strong>DEL plans</strong></td><td colspan="4">← <strong>Spending assumption</strong> →</td></tr>
</table>
<ul>
<li>OBR forecast covered the period 2014-15 to 2019-20.</li>
<li>DEL plans covered the period up to 2015-16.</li>
<li>The assumption covered the period 2016-17 to 2019-20.</li>
</ul>
</td></tr>
</table>

| | |
|---|---|
| TME real growth rate used | • A negative real growth rate of 1.1 per cent projected forwards for TME after 2015-16, to calculate TME in 2016-17 and 2017-18. This was the real growth rate over the period from 2010-11 to **2014-15**, with:<br>– 2014-15 adjusted to **exclude** the forecast DEL underspends and **exclude** the Autumn Statement spending measures;<br>– 2014-15 also adjusted to **exclude** the £1.7 billion one-off historic adjustment to the UK's GNI-based contributions;<br>– 2010-11 adjusted to **exclude** the outturn DEL underspends, and **exclude** the June Budget 2010 spending measures; and<br>– 2010-11 also adjusted to **include** an adjustment to include spending for the negative tax element of tax credits, consistent with the prospective treatment under ESA10, which we had included in our forecast.<br>• This growth rate was applied to a 2015-16 TME baseline that **excluded** the rebate associated with the £1.7 billion one-off historic adjustment to the UK's GNI-based contributions, **excluded** the forecast DEL underspends, **excluded** the Autumn Statement spending measures, **excluded** the 2014 Budget spending measures and **excluded** the 2013 Autumn Statement spending measures.<br>• The results were then reduced by the spending measures for 2016-16 to 2017-18 that were additionally included in the 2014 Budget.<br>• After 2017-18, TME projected forward by applying flat (0 per cent) real growth to the TME baseline in 2017-18 that was calculated by applying the spending assumption above.<br>• The results were then reduced by the spending measures for 2018-19 that were additionally included in the 2014 Budget, with these measures also extended to reduce spending in 2019-20.<br>• Flat (0 per cent) real growth projected forwards for PSGI after 2015-16, to calculate PSGI in 2016-17 and 2017-18.<br>• This growth rate was applied to a PSGI baseline in 2015-16 that **included** the DEL underspend assumptions, **excluded** the Autumn Statement spending measures, **excluded** the 2014 Budget spending measures and **excluded** the 2013 Autumn Statement spending measures.<br>• After 2017-18, PSGI projected forward by applying nominal GDP growth to the PSGI baseline in 2017-18 that was calculated by applying the spending assumption above. |
| Interaction with spending measures on scorecard | • Measures affecting TME in 2015-16 **were not** taken forward using these assumptions.<br>• Three spending measures affected the Budget scorecard bottom line over the period from 2016-17 to 2019-20. These were for:<br>• the remaining revaluations of the public service pension schemes, which had not already been included in the spending measures in the 2014 Budget. This measure reduced TME;<br>• increased fees for Pool Reinsurance Limited. This measure also reduced TME; and<br>• additional funds to upgrade GP services. This measure increased TME. |

## December 2014 *Economic and fiscal outlook*

TME levels

| | £ billion | | | | | | |
|---|---|---|---|---|---|---|---|
| | Outturn | Forecast | | | | | |
| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| TME[1] | 725.4 | 737.1 | 746.2 | 746.7 | 751.3 | 765.3 | 779.9 |
| PSGI | 61.4 | 65.4 | 65.8 | 66.0 | 67.2 | 70.0 | 72.9 |
| PSCE [1] | 664.0 | 671.7 | 680.4 | 680.6 | 684.1 | 695.3 | 707.0 |
| PSGI in CDEL | 38.4 | 41.4 | 41.0 | 40.0 | 40.1 | 44.8 | 48.0 |
| PSCE in RDEL | 317.5 | 316.8 | 316.3 | 299.0 | 287.9 | 282.9 | 279.7 |
| Money GDP | 1,733 | 1,822 | 1,888 | 1,956 | 2,038 | 2,124 | 2,215 |
| GDP deflator | 1.8 | 2.1 | 1.4 | 1.3 | 1.7 | 1.9 | 1.9 |
| GDP deflator index 2014-15 = 100 | 97.9 | 100.0 | 101.4 | 102.8 | 104.5 | 106.5 | 108.5 |

[1] Outturn adjusted to include tax credits that were treated as negative tax in the National Accounts in November 2014 *EFO*. These have since been reclassifed as current expenditure. They were included as current expenditure in the forecast in our December 14 *EFO*, but the outturns still showed them as negative tax at that time.

[2] Spending data in the December 2014 EFO reflected ESA10 classification changes.

Cumulative change in TME since 2009-10

| | Change between 2009-10 and 2019-20 | | |
|---|---|---|---|
| | Nominal (cash) percentage change | Real terms percentage change | Percentage points of GDP |
| TME | 13.7 | 0.7 | -10.5 |
| PSGI | -8.5 | -18.9 | -2.0 |
| PSCE | 16.6 | 3.3 | -8.5 |
| PSGI in CDEL | -12.2 | -22.2 | -1.5 |
| PSCE in RDEL | -12.1 | -22.1 | -8.6 |

[1] Outturn adjusted to include tax credits that were treated as negative tax in the National Accounts, as shown in the November 2014 *EFO*. These have since been reclassifed as current expenditure. They were included as current expenditure in the forecast in our December 14 *EFO*, but the outturns still showed them as negative tax at that time.

[2] Spending data in the December 2014 EFO reflected ESA10 classification changes.

### March 2015 *Economic and fiscal outlook*

| | |
|---|---|
| Text from *EFO* | 'The Government's policy assumptions for the growth of TME between 2016-17 and 2019-20 at Budget 2015 are as follows:<br>• for 2016-17 and 2017-18: TME should fall in real terms at the same rate as over the 2010-11 to 2014-15 period covered by Spending Review 2010. For 2010-11, the relevant measure of TME should exclude underspending against plans and the in-year spending reductions announced in the June 2010 Budget, include an estimate of the retrospective effect of our decision to anticipate the future ONS revisions to the measurement of depreciation for Network Rail and the life-length of roads, but not include the retrospective effect of our decision to anticipate the future ONS reclassification of UK subscriptions to multilateral development banks. For 2014-15, the measure of TME should exclude our measure of DEL shortfalls, include our changes to the depreciation forecast that anticipate ONS revisions mentioned above, exclude the changes to our forecast for the ONS's reclassification of UK subscriptions to multilateral development banks, exclude the net effect of the historical adjustment to the UK's GNI-based contribution to the EU, and also exclude the expected adjustment in respect of its VAT contributions to the EU in December 2014. This fall in real terms should then be applied to our pre-measures forecast of TME in 2015-16, which should also exclude our forecast for DEL underspending, exclude the reclassification of UK subscriptions to multilateral development banks, exclude the additional rebate in respect of the historical adjustment to the UK's GNI-based contribution to the EU, exclude the adjustments included in our latest forecast that would accrue in December 2015 in respect of UK GNI and VAT-based contributions to the EU in 2014-15, but include the adjustment included in our latest forecast for the expected revisions to the UK's 2015-16 GNI contributions when these are revised in May 2015.The effects of previous budget measures are also taken into account, to ensure that they have the same effect on future years as they did in each previous fiscal event. Within TME, PSGI should be held flat in real terms from a level in 2015-16 that includes our allowance for shortfall and includes the reclassification of UK subscriptions to multilateral development banks;<br>• for 2018-19: TME should be held flat in real terms, and within TME, PSGI should grow in line with nominal GDP. The results should be calculated to ensure that previous budget measures have the same effect as announced in the relevant fiscal event; and<br>• for 2019-20: both TME and PSGI within TME should be grown in line with nominal GDP. Again, the results should be calculated to ensure that previous budget measures have the same effect as announced in the relevant fiscal event ' (p.127) |
| Text from Treasury Budget document | 'The fiscal assumption [is] that Total Managed Expenditure (TME) will fall in real terms in 2016-17 and 2017-18 at the same rate as over the period 2010-11 to 2014-15.' 'From 2018-19 the government has set a neutral fiscal assumption, holding TME flat in real terms in 2018-19 and in 2019-20 increasing TME in line with nominal GDP.' 'The fiscal assumption for 2016-17, 2017-18, 2018-19 and 2019-20 is expressed in terms of TME. It would, of course, be possible to do more of this further consolidation through tax instead.' (p.26)<br>'The government will continue to prioritise capital investment over the medium to longer term, so within the overall fiscal assumption, public sector gross investment (PSGI) will be constant in real terms in 2016-17 and 2017-18 and will grow in line with GDP from 2018-19.' (p.68)<br>[3] 'The PSGI growth rule is applied to a 2015-16 baseline which includes the OBR's forecast Allowance for Shortfall and excludes the effect of all policy measures announced at Autumn Statement 2013, Budget 2014, Autumn Statement 2014 and Budget 2015. Following the application of the PSGI growth rule, PSGI has from 2016-17 onwards been adjusted to take account of the same measure as at Autumn Statement 2014.'<br>[4] 'The 2010-11 baseline for calculating the TME growth rule excludes in-year spending reductions announced at June Budget 2010 and departmental underspends against 2010-11 plans, but includes an estimate for the outturn effect of classification changes pre-empted by the OBR at Budget 2015. The 2014-15 baseline for calculating the TME growth rule excludes the OBR's forecast Allowance for Shortfall. The TME growth rule is applied to a 2015-16 baseline which excludes the OBR's forecast Allowance for Shortfall and the effect of all policy measures announced at Autumn Statement 2013, Budget 2014, Autumn Statement 2014 and Budget 2015. Following the application of the TME growth rule, TME from 2016-17 onwards has been adjusted to take account of the same measures as at Budget 2014 and Autumn Statement 2014. The effects of the historic adjustments to the UK's GNI-based contributions to the EU, and further anticipated GNI adjustments, and associated rebates, are excluded from the calculation of the TME growth rule. The effects of the reclassification of Multilateral Development Bank loans, pre-empted by the OBR at Budget 2015, are also excluded from the calculation of the TME growth rule.' (Table 2.3, p.68) |

<table>
<tr>
<td>Years covered by fiscal assumption in the forecast</td>
<td>
<table>
<tr><td>Outturn</td><td>Forecast</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td><td>2019-20</td></tr>
<tr><td></td><td colspan="2"><b>DEL plans</b></td><td colspan="4">← <b>Spending assumption</b> →</td></tr>
</table>
<ul>
<li>OBR forecast covered the period 2014-15 to 2019-20.</li>
<li>DEL plans covered the period up to 2015-16.</li>
<li>The assumption covered the period 2016-17 to 2019-20.</li>
</ul>
</td>
</tr>
<tr>
<td>TME real growth rate used</td>
<td>
<ul>
<li>A negative real growth rate of 1.1 per cent projected forwards for TME after 2015-16, to calculate TME in 2016-17 and 2017-18. This was the real growth rate over the period from 2010-11 to <b>2014-15</b>, with:
<ul>
<li>2014-15 adjusted to <b>exclude</b> the forecast DEL underspends;</li>
<li>2014-15 adjusted to <b>exclude</b> the £1.7 billion one-off historic adjustment to the UK's GNI-based contributions;</li>
<li>2014-15 also adjusted to <b>exclude</b> the -£0.1 billion adjustment to the UK's VAT contribution in December 2014s;</li>
<li>2014-15 also adjusted to <b>exclude</b> the £1.4 billion change to our forecast for the ONS reclassification of UK subscriptions to multilateral development banks (but the remaining changes to our forecast that anticipate the remaining ONS revisions announced alongside this reclassification are included);</li>
<li>2010-11 adjusted to <b>exclude</b> the outturn DEL underspends, and <b>exclude</b> the June Budget 2010 spending measures; and</li>
<li>2010-11 also adjusted to include an estimate of the ONS prospective revisions, not including UK subscriptions to multilateral development banks.</li>
</ul>
</li>
<li>This growth rate was applied to a 2015-16 TME baseline that <b>excluded</b> the rebate associated with the £1.7 billion one-off historic adjustment to the UK's GNI-based contributions, <b>excluded</b> the forecast DEL underspends, <b>excluded</b> the Budget spending measures, <b>excluded</b> the 2014 Autumn Statement spending measures, <b>excluded</b> the 2014 Budget spending measures and <b>excluded</b> the 2013 Autumn Statement spending measures.</li>
<li>The results were then adjusted to include the spending measures for 2016-17 and 2017-18 that were additionally included in the 2014 Budget and the 2014 Autumn Statement.</li>
<li>In 2018-19, TME projected forward by applying flat (0 per cent) real growth to the TME baseline in 2017-18 that was calculated by applying the spending assumption above, before the adjustment to include the spending measures for 2017-18 that were additionally included in the 2014 Budget and the 2014 Autumn Statement. The results were then adjusted to include the spending measures for 2018-19 that were additionally included in the 2014 Budget and the 2014 Autumn Statement.</li>
<li>In 2019-20, TME projected forward by applying nominal GDP growth to the TME baseline in 2018-19 that was calculated by applying the spending assumption above, before the adjustment to include the spending measures for 2017-18 that were additionally included in the 2014 Budget and the 2014 Autumn Statement. The results were then adjusted to include the spending measures for 2019-20 that were additionally included in the 2014 Budget and the 2014 Autumn Statement, with the Budget 2014 measures extended to reduce spending in 2019-20.</li>
<li>Flat (0 per cent) real growth projected forwards for PSGI after 2015-16, to calculate PSGI in 2016-17 and 2017-18.</li>
<li>This growth rate was applied to a PSGI baseline in 2015-16 that <b>included</b> the DEL underspend assumptions, <b>included</b> the £1.4 billion change to our forecast for the ONS's reclassification of UK subscriptions to multilateral development banks, <b>excluded</b> the Budget spending measures, excluded the 2014 Autumn Statement spending measures, <b>excluded</b> the 2014 Budget spending measures and <b>excluded</b> the 2013 Autumn Statement spending measures.</li>
<li>The results were then adjusted to include the capital spending measure for 2016-17 and 2017-18 that were additionally included in the 2014 Autumn Statement.</li>
<li>After 2017-18, PSGI projected forward by applying nominal GDP growth to the PSGI baseline in 2017-18 that was calculated by applying the spending assumption above, before the adjustment to include the capital spending measure for 2017-18 that was additionally included in the 2014 Autumn Statement.</li>
</ul>
</td>
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</table>

**Interaction with spending measures on scorecard**

- Measures affecting TME in 2015-16 **were not** taken forward using these assumptions.
- This meant that measures that affected AME spending in the period 2016-17 to 2019-20 were completely offset in the implied DELs.
- The Budget scorecard bottom line did not include any changes to total spending over the period from 2016-17 to 2019-20.

**TME levels**

| | £ billion | | | | | | |
|---|---|---|---|---|---|---|---|
| | Outturn | Forecast | | | | | |
| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| TME | 721.5 | 735.0 | 740.4 | 738.1 | 741.7 | 757.0 | 795.0 |
| PSGI | 61.2 | 66.4 | 66.9 | 68.0 | 69.1 | 72.2 | 75.9 |
| PSCE | 660.3 | 668.6 | 673.5 | 670.1 | 672.6 | 684.7 | 719.1 |
| PSGI in CDEL | 38.4 | 40.7 | 40.5 | 41.0 | 42.3 | 45.8 | 49.1 |
| PSCE in RDEL | 317.5 | 316.5 | 316.4 | 301.6 | 289.7 | 287.9 | 308.2 |
| Money GDP | 1,731 | 1,809 | 1,878 | 1,943 | 2,022 | 2,111 | 2,218 |
| GDP deflator | 2.1 | 1.7 | 1.4 | 1.2 | 1.6 | 2.1 | 2.6 |
| GDP deflator index 2014-15 = 100 | 98.4 | 100.0 | 101.4 | 102.6 | 104.2 | 106.4 | 109.2 |

[1] In order to facilitate comparisons with outturn data, this table excludes the elements included in our forecast that anticipate ONS's prospective classification changes and revisions.

**Cumulative change in TME since 2009-10**

| | Change between 2009-10 and 2019-20 | | |
|---|---|---|---|
| | Nominal (cash) Percentage change | Real terms Percentage change | Percentage points of GDP |
| TME | 15.8 | 2.2 | -9.9 |
| PSGI | -4.9 | -16.1 | -1.9 |
| PSCE | 18.6 | 4.6 | -8.0 |
| PSGI in CDEL | -10.2 | -20.8 | -1.4 |
| PSCE in RDEL | -3.1 | -14.5 | -7.3 |

[1] In order to compare forecasts and outturn on a similar basis, these comparisons exclude the changes included in our forecast that anticipate ONS's prospective classification changes and revisions.