

9 August 2018
Our ref: FOI18072018

102 Petty France
London SW1H 9AJ

obr.uk

Dear
(via email)

Re: Request for information under the Freedom of Information Act.

Thank you for your request for information under the Freedom of Information Act, which we received on 18 July 2018. You requested the following:

FOI request for latest Brexit forecasts please and assumptions on statement below:

Brexit dividend for NHS is a fallacy says OBR.

This information is already in the public domain, so strictly speaking is exempt under Section 21 of the FOI Act. This letter brings together the elements that may be of greatest interest given your question.

In our November 2016 *Economic and fiscal outlook (EFO)*, the first that we published after the EU referendum, we made a series of “broad-brush” Brexit-related assumptions, given a lack of precise details on Government policy and end states for the negotiations. We assumed that:

- the UK leaves the EU in March 2019;
- the negotiation of new trading arrangements with the EU and others slows the pace of import and export growth over a 10-year period; and
- the UK adopts a tighter migration regime following departure from the EU than that currently in place.

Additionally, in our fiscal forecast, we assumed that:

- any reduction in expenditure transfers to EU institutions would be recycled fully into other spending; and
- there are no changes to the structure or membership of tax systems for which there are common EU rules (such as VAT and the EU emissions trading scheme or the customs duties that are deemed to be collected on behalf of the EU).

In Annex B of our November 2017 *EFO*, we detailed how our forecast for EU contributions is constructed. This includes for the period after the UK has left the EU, where these figures provide the basis for our borrowing-neutral assumption for other spending in lieu of transfers to EU institutions.

In Annex B of our March 2018 *EFO*, we were for the first time able to include the Brexit financial settlement – the so-called ‘divorce bill’ – within our forecast. Table B.7 and Chart B.4 showed the transfers associated with the financial settlement that affect public sector net borrowing. By comparing these to our estimates of what net transfers to the EU would have been in

the absence of a referendum, we were able to quantify a residual amount of assumed spending in lieu of EU transfers. We noted several commitments and other statements that the Government has made in respect of post-Brexit spending priorities, including on farm support and the creation of a 'Shared Prosperity Fund' in place of EU structural funds spending.

Our 2018 *Fiscal sustainability report (FSR)*, published on 17 July, made no new assumptions about how the UK's exit from the European Union will unfold, so its 50-year projections are based on the same broad-brush assumptions that have underpinned each post-referendum *EFO*. The *FSR* projections incorporated the significant increase in NHS spending through to 2023-24 announced by the Prime Minister in June, but did not assume that any of it would be financed by the residual amount of spending in lieu of transfers to the EU. This approach was explained in paragraph 3.137:

"Announcing the additional health spending, the Prime Minister said that it would be funded by a "Brexit dividend, with us as a country contributing a little more". As already noted, the Government has not set out the size or composition of any additional taxpayer contribution, either through higher taxes or cuts in other spending, so we have not been able to include it in our projections. As regards the 'Brexit dividend', our provisional analysis suggests that Brexit is more likely to weaken the public finances than strengthen them over the medium term, thanks to its likely effect on the economy and tax revenues. Looking more narrowly at direct financial flows with the EU, we estimated in our March 2018 EFO that the UK would have had to make a contribution of £13.3 billion to the EU budget in 2022-23 if we remained a member. Of that potential saving, £7.5 billion will be absorbed by the withdrawal settlement payment expected for that year, leaving £5.8 billion to be spent on other things. In principle this could cover slightly less than 30 per cent of the cost of health package in that year, but this does not take into account other calls on these potential savings, including commitments the Government has already made on farm support, structural funds, science and access to regulatory bodies. Pending a detailed withdrawal agreement and associated spending decisions, we assume in this report that the extra health spending adds to total spending and borrowing rather than being absorbed in whole or part elsewhere."

Our *EFOs* can be found here: <http://obr.uk/efo/economic-fiscal-outlook-march-2018/> (previous editions available via this page) and our latest *FSR* can be found here: <http://obr.uk/fsr/fiscal-sustainability-report-july-2018/>

If you have any other queries about this letter, please send them to our enquiries inbox at obr.enquiries@obr.uk.

Yours sincerely,

Freedom of Information Unit

Office for Budget Responsibility

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Your right to complain under the Freedom of Information Act 2000

If you are not happy with this reply, you may request a review by writing to OBR Enquiries, Office for Budget Responsibility, 14T, 102 Petty France, London SW1H 9AJ or by email to obr.enquiries@obr.uk.

Any review request must be made within 2 months of the date of this letter.

It would assist our review if you set out which aspects of the reply concern you and why you are dissatisfied.

If you are not content with the outcome your complaint, you may apply directly to the Information Commissioner for a decision. Generally, the ICO cannot make a decision unless you have exhausted the complaints procedure provided by the OBR. The Information Commissioner can be contacted at: The Information Commissioner's Office, Wycliffe House, Water Lane, Wilmslow, Cheshire SK9 5AF.