

Office for
**Budget
Responsibility**

Forecast evaluation report and Welfare trends report 2014

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Chairman

16 October 2014

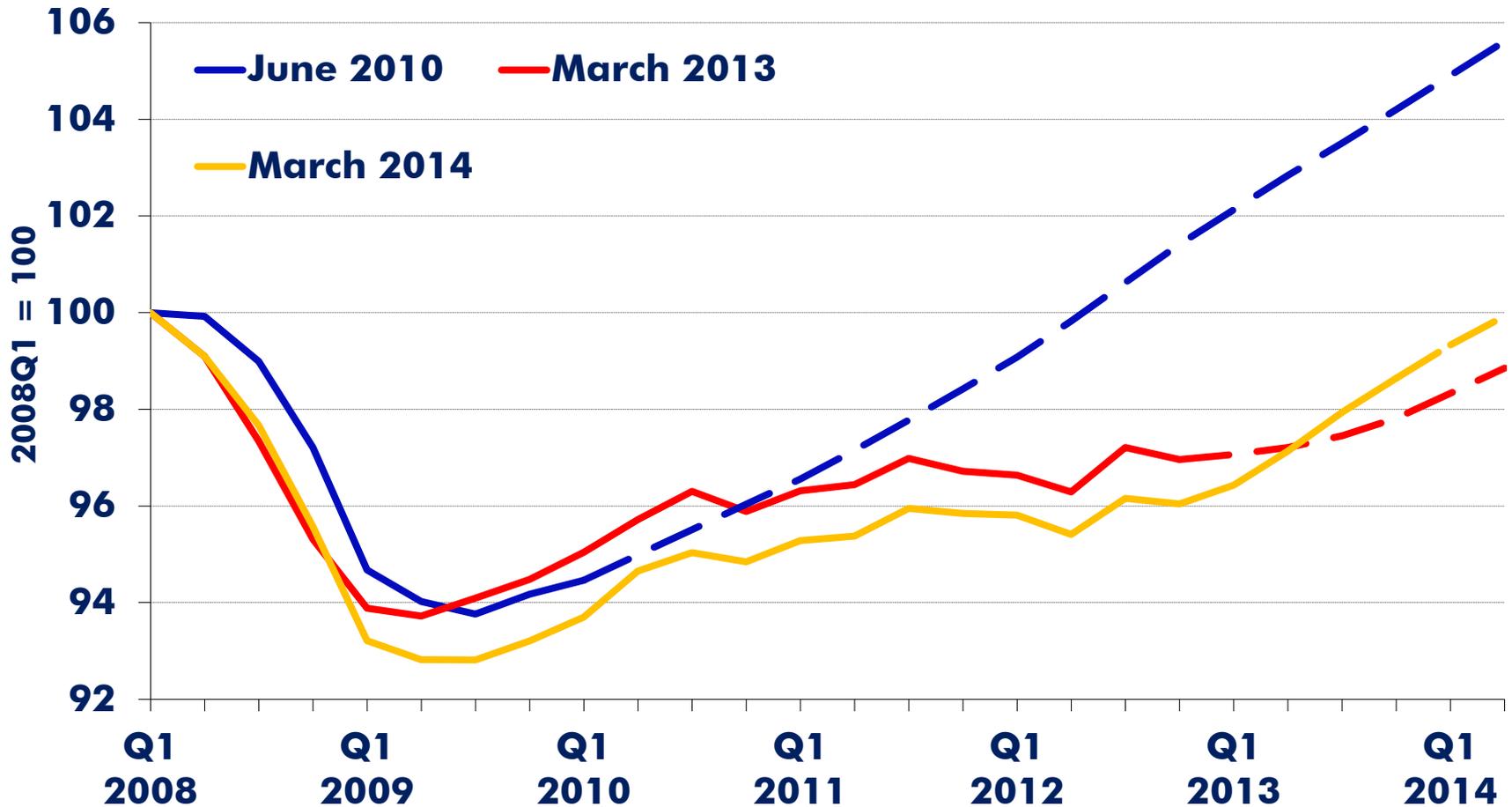
The Forecast evaluation report

- **We publish 2 medium-term forecasts a year**
- **In which we emphasise and quantify uncertainty**
- **In the FER we evaluate forecasts against outturns**
 - Focus on June 2010 and March 2013 forecasts
- **Transparency helps accountability and learning**

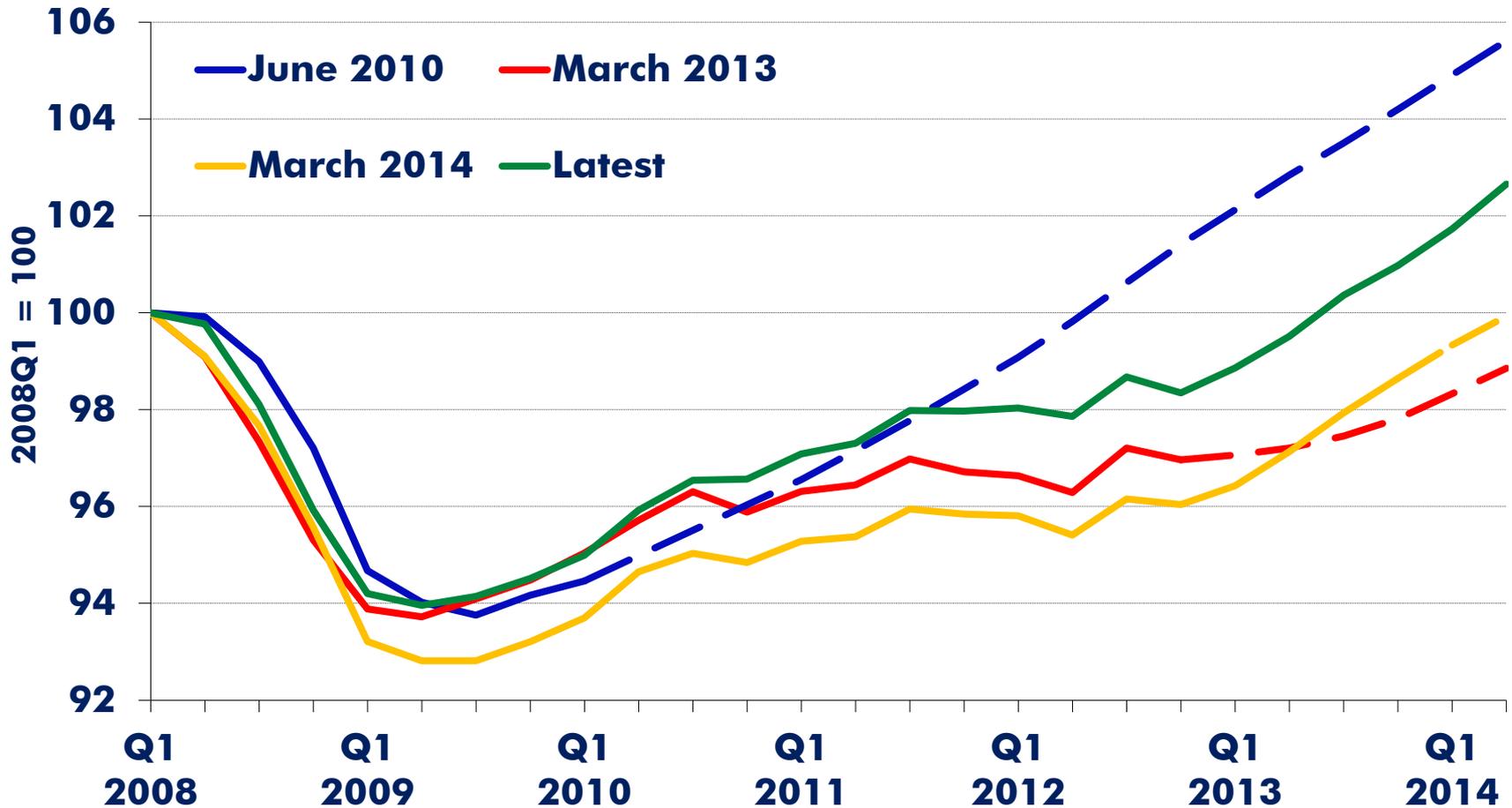
What are we trying to explain?

- **Relative to the June 2010 forecast**
 - Real GDP growth much weaker than expected
 - But deficit fell on schedule in 2010-11 and 2011-12
 - And only overshot in 2012-13 and 2013-14
- **Relative to the March 2013 forecast**
 - Real GDP growth much stronger than expected
 - Deficit lower than expected in 2013-14
 - But not by as much as you would expect

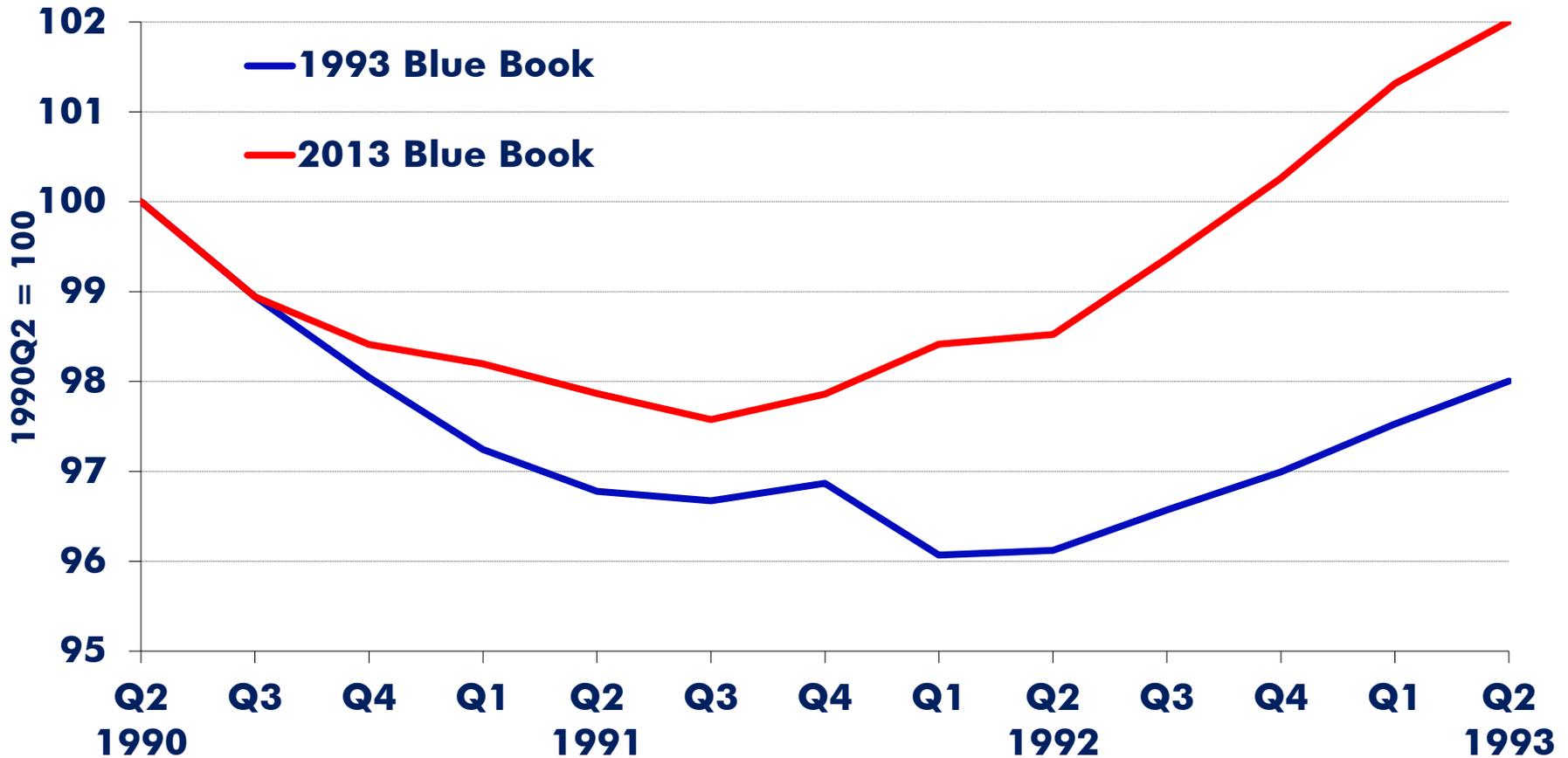
Real GDP forecasts and outturns



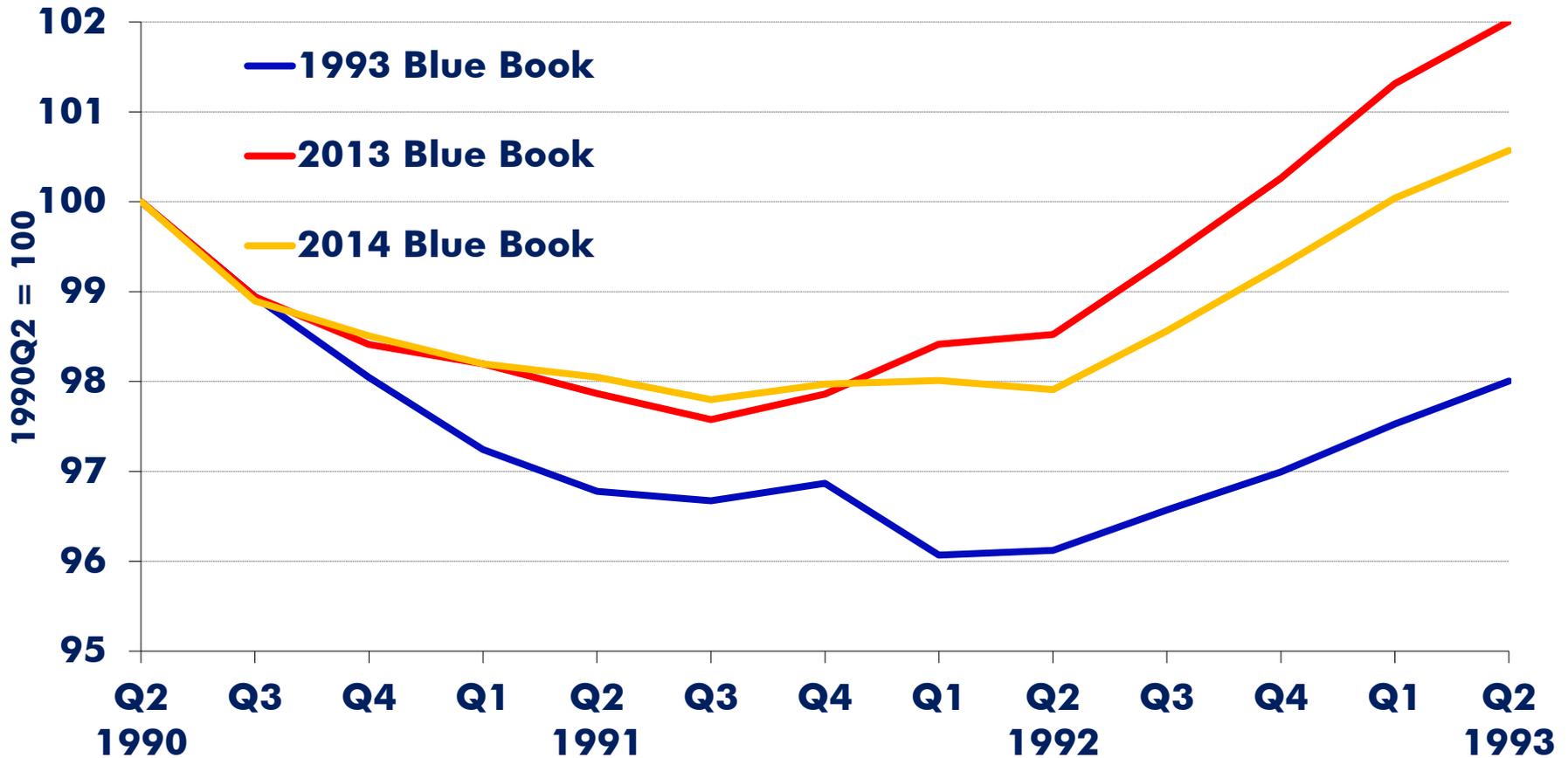
Real GDP forecasts and outturns



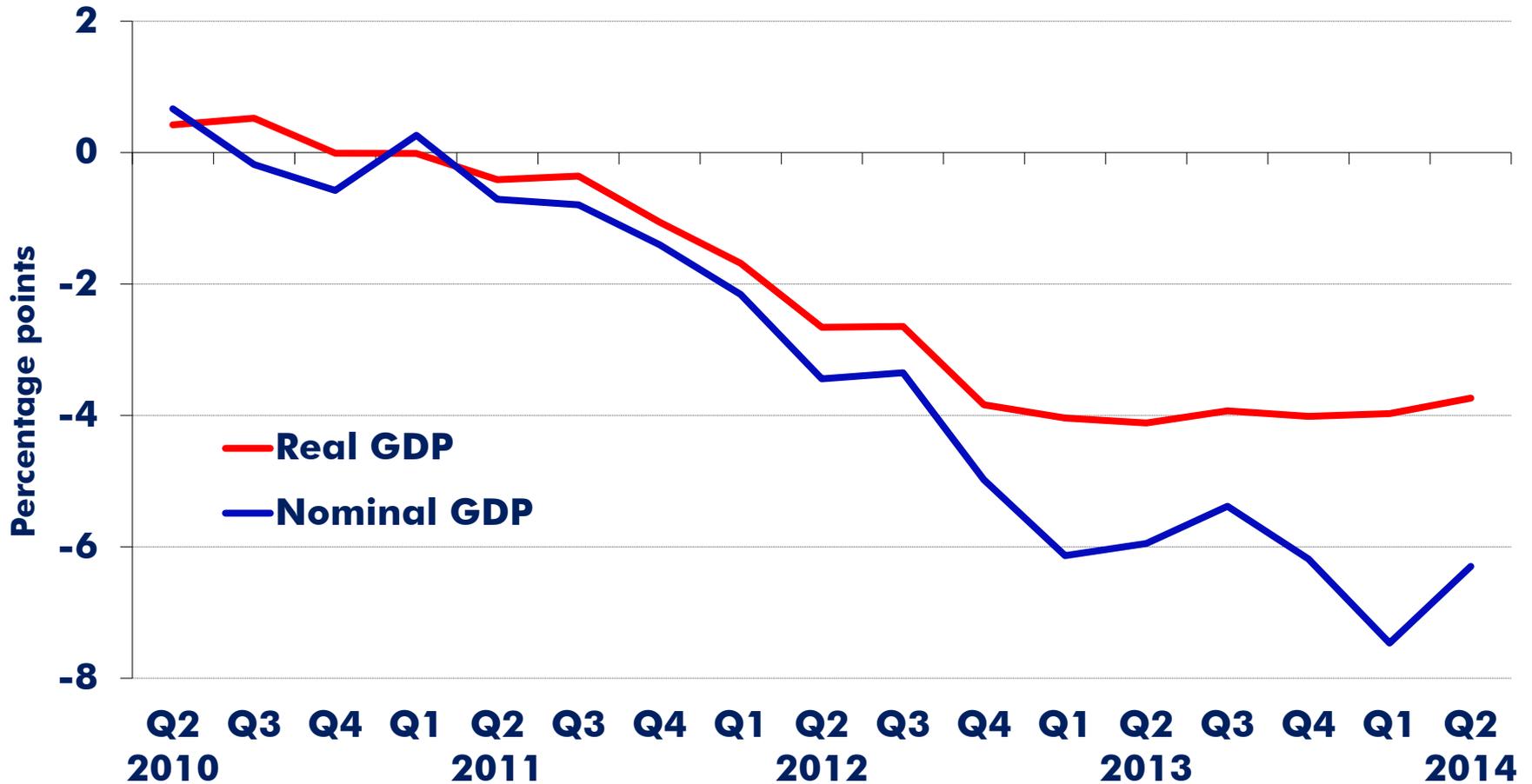
Rewriting history: the 90s recession



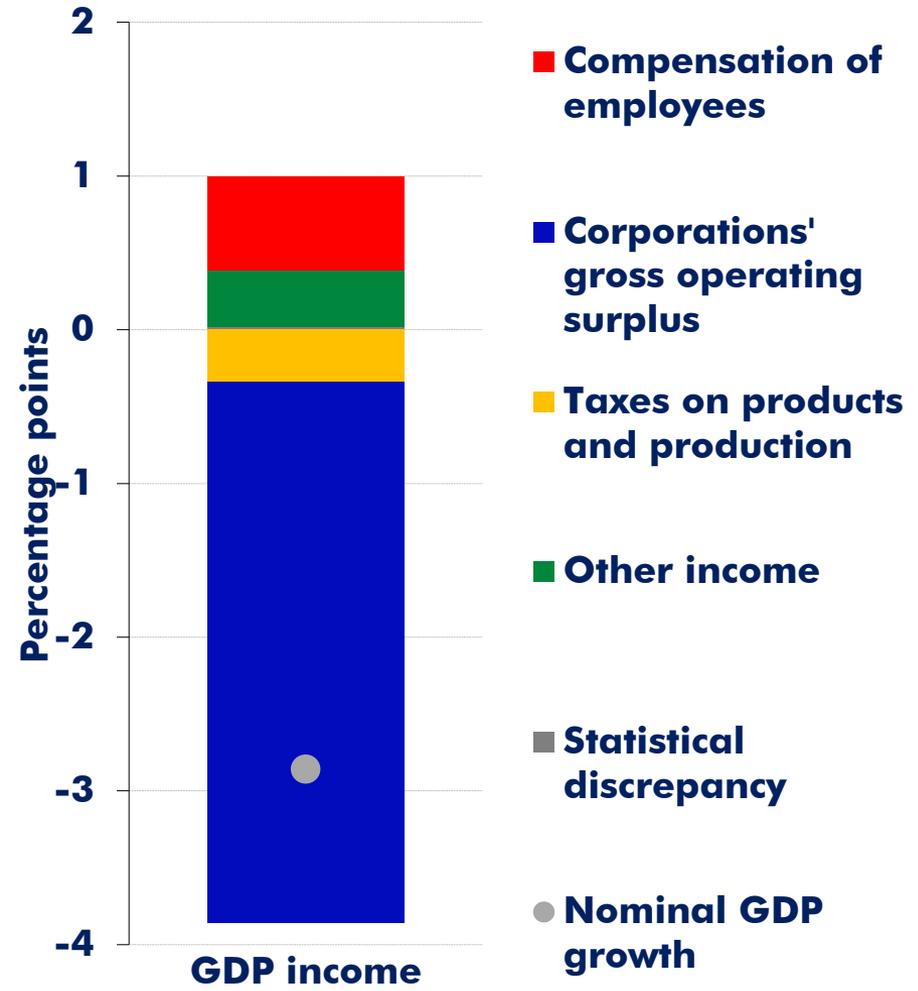
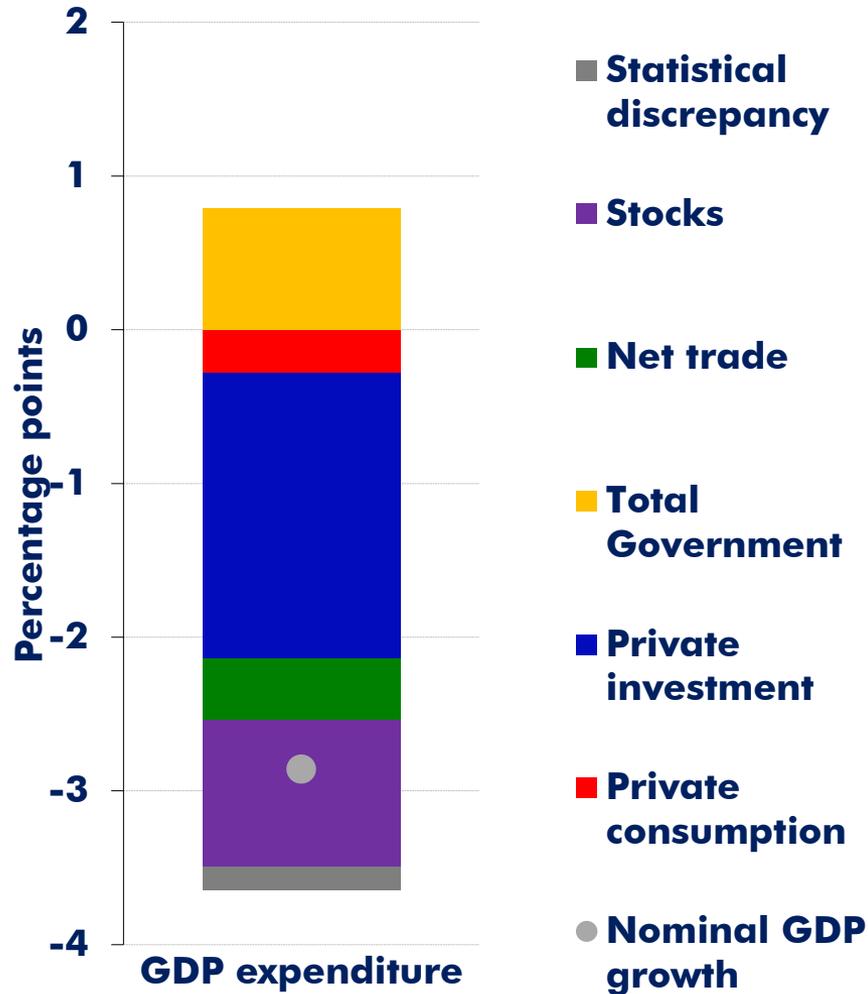
Rewriting history: the 90s recession



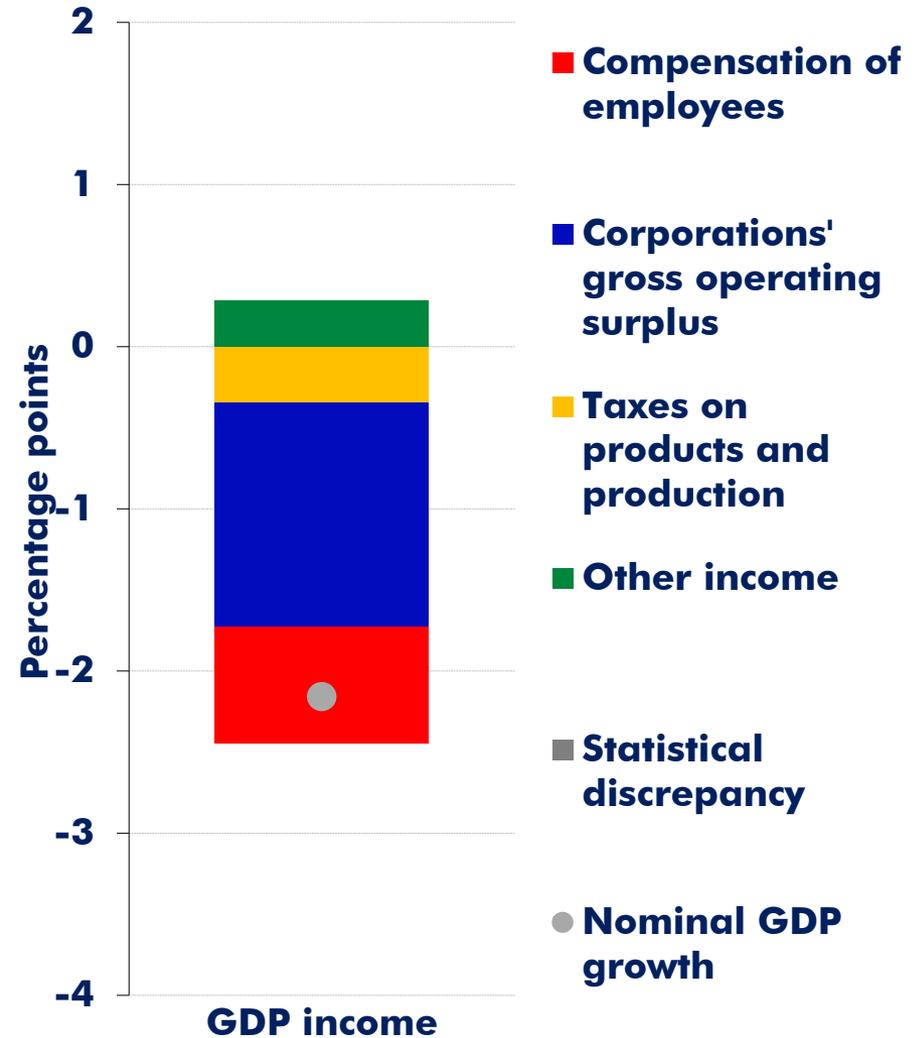
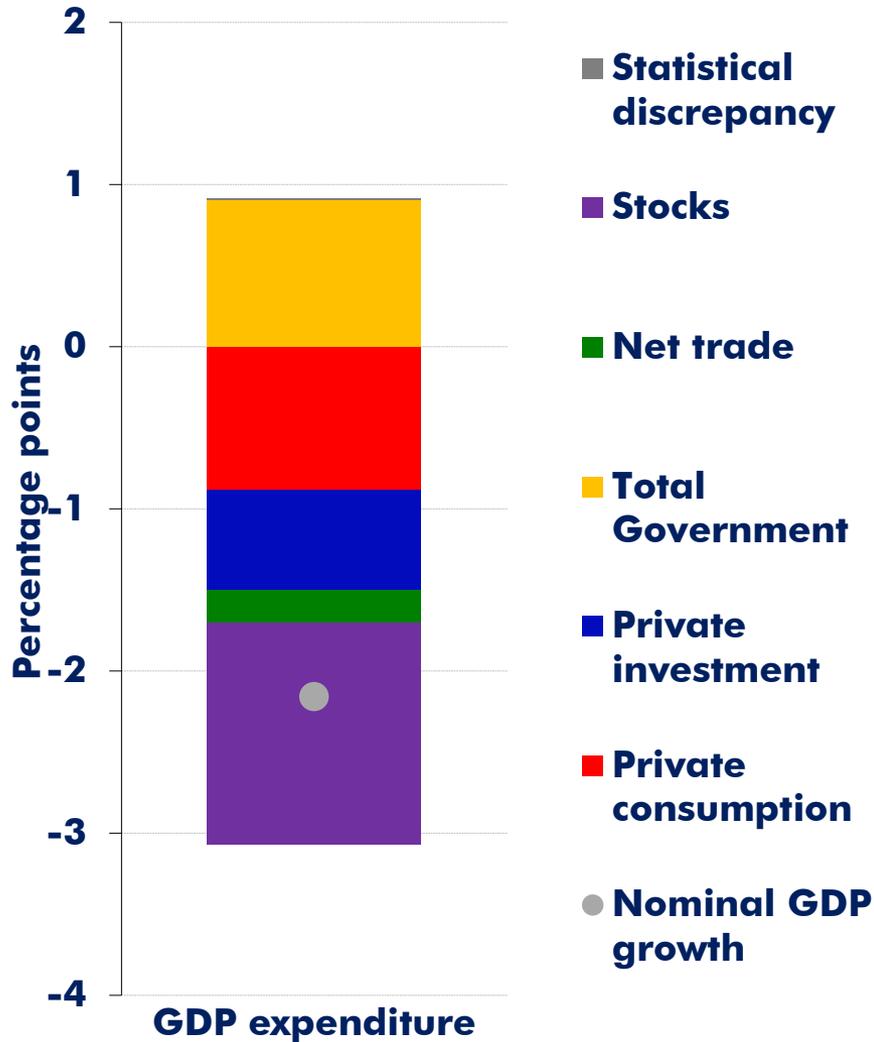
Errors in June 2010 GDP forecasts



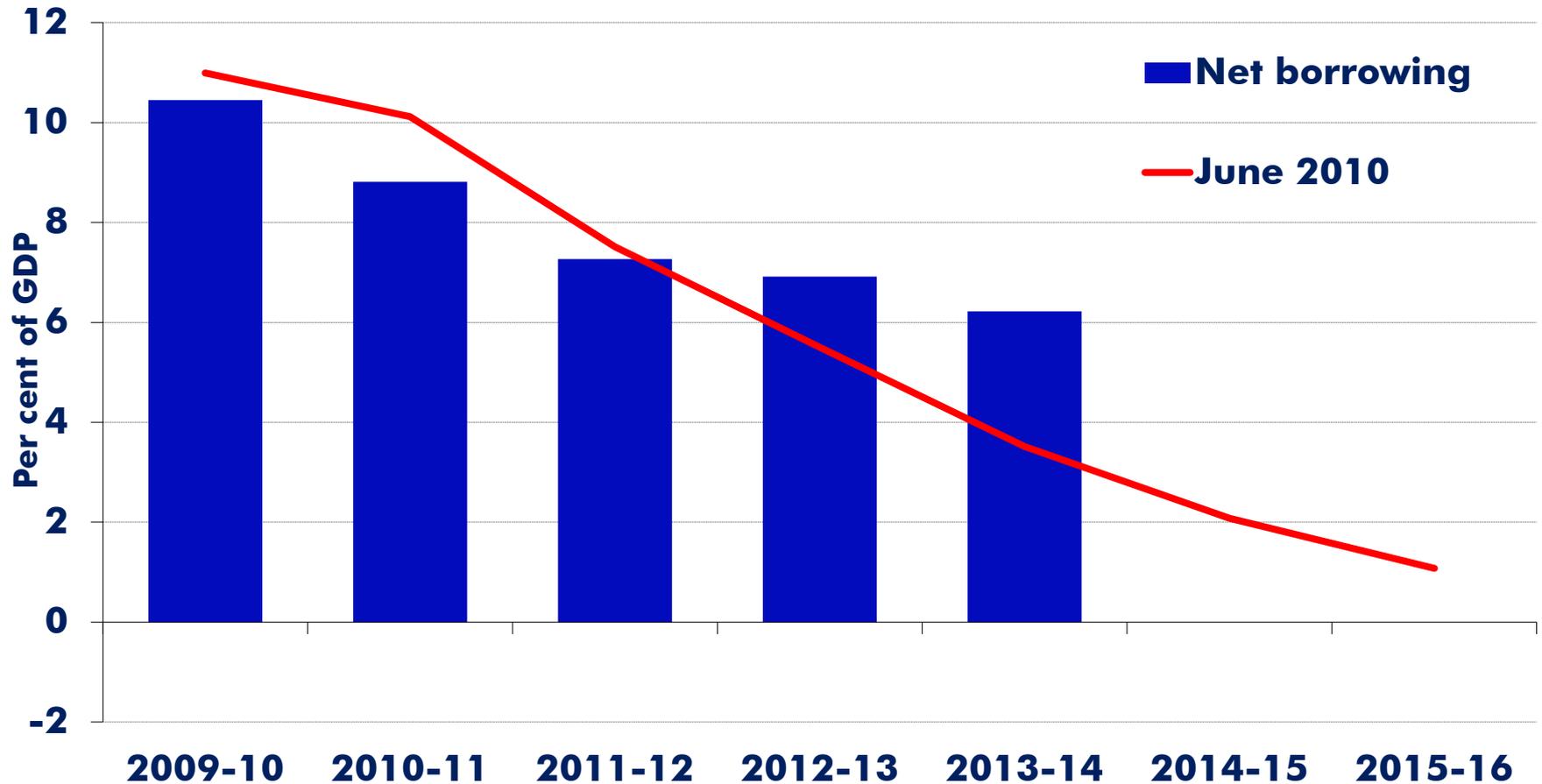
FER 2013: Nominal error 10Q1-12Q1



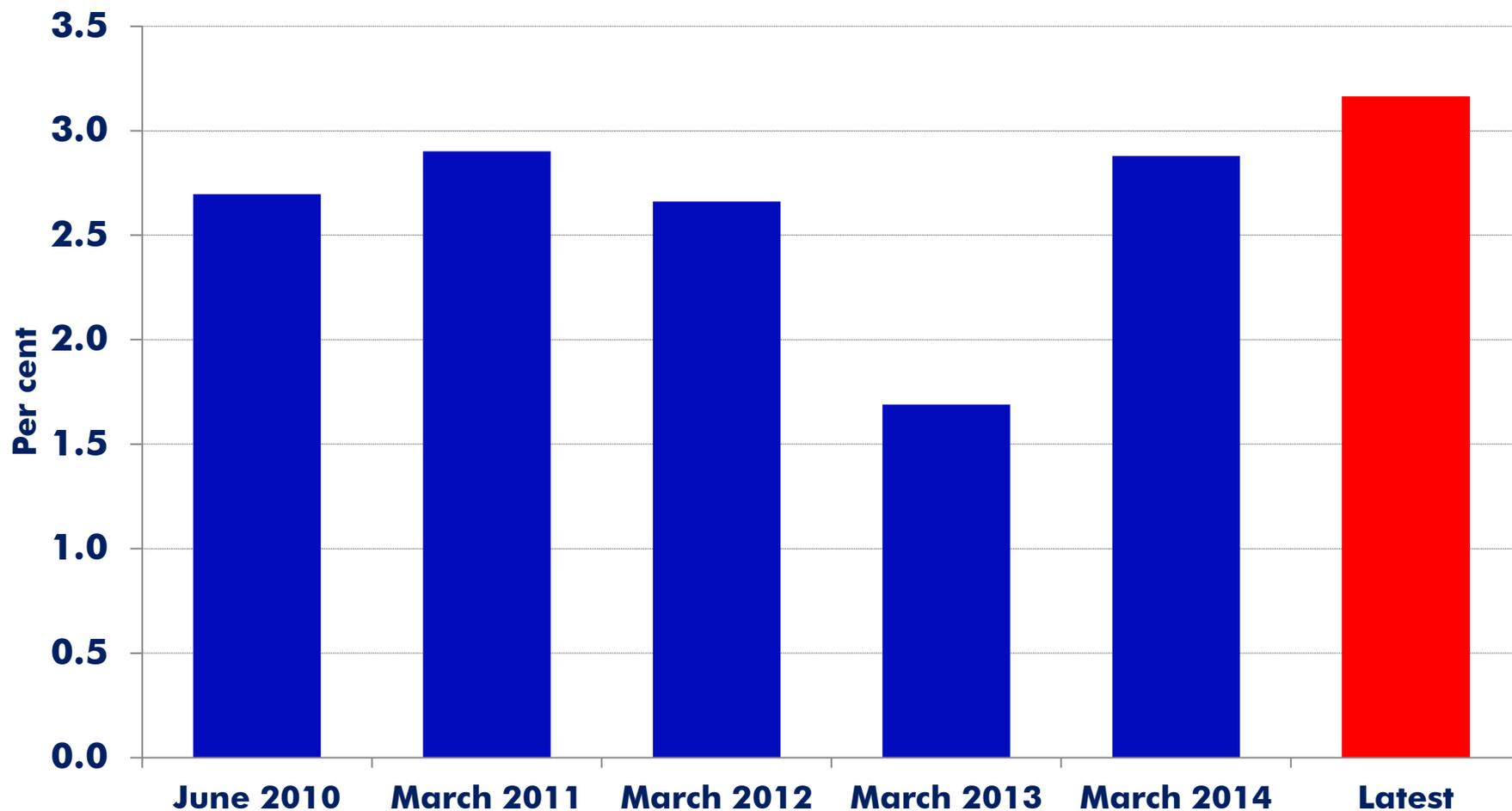
FER 2014: Nominal error 10Q1-12Q1



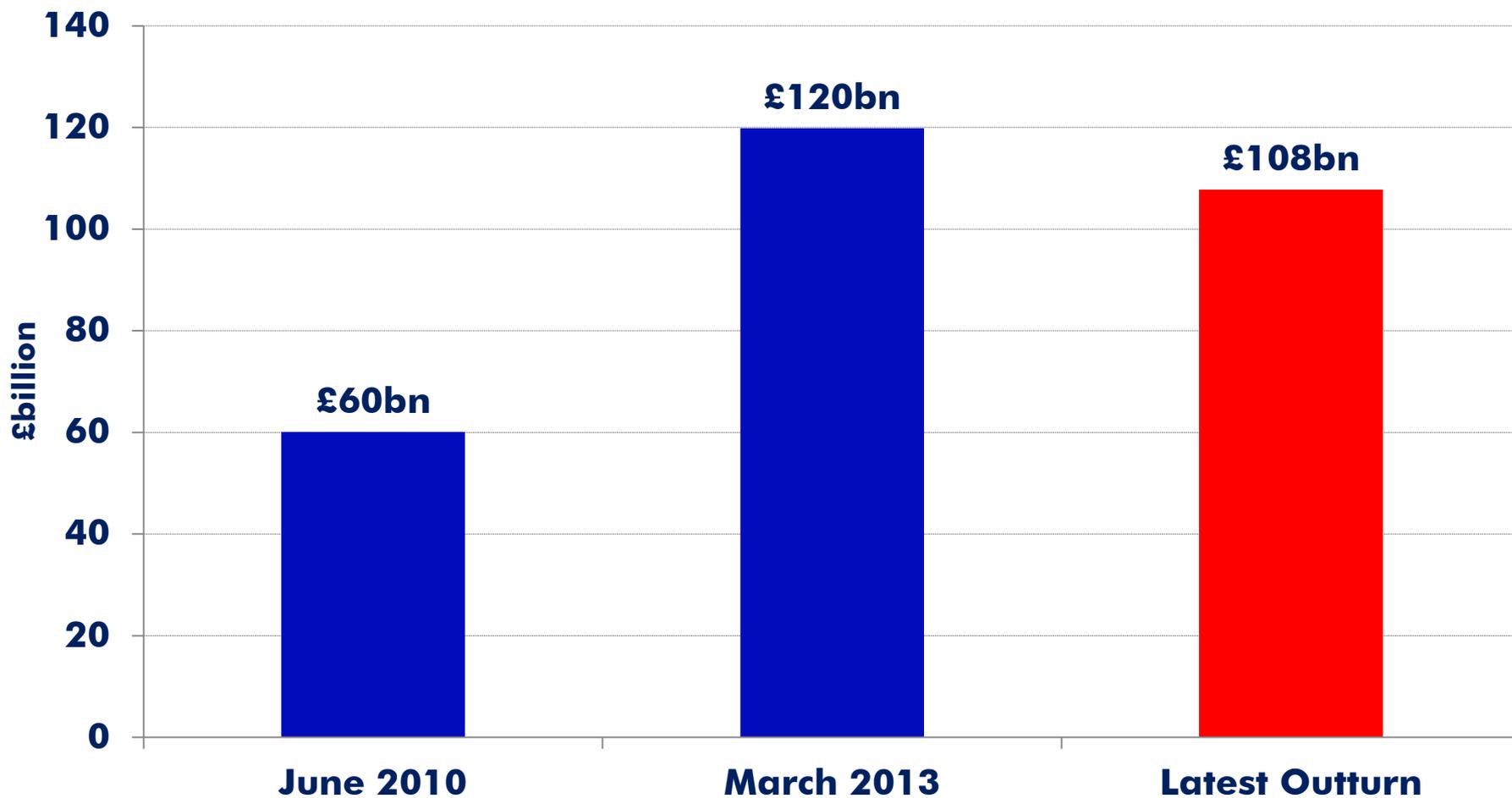
Net borrowing forecast and outturn



Real GDP growth: 13Q2-14Q2



Public sector net borrowing 2013-14



13-14 receipts and spending errors

	£ billion	
	June 2010	March 2013
Receipts	-52.5	9.2
Income tax and NICs	-32.4	3.7
Onshore CT	-8.5	2.1
Oil and gas	-5.9	-2.1
VAT	3.0	3.1
Spending	-4.8	-2.9

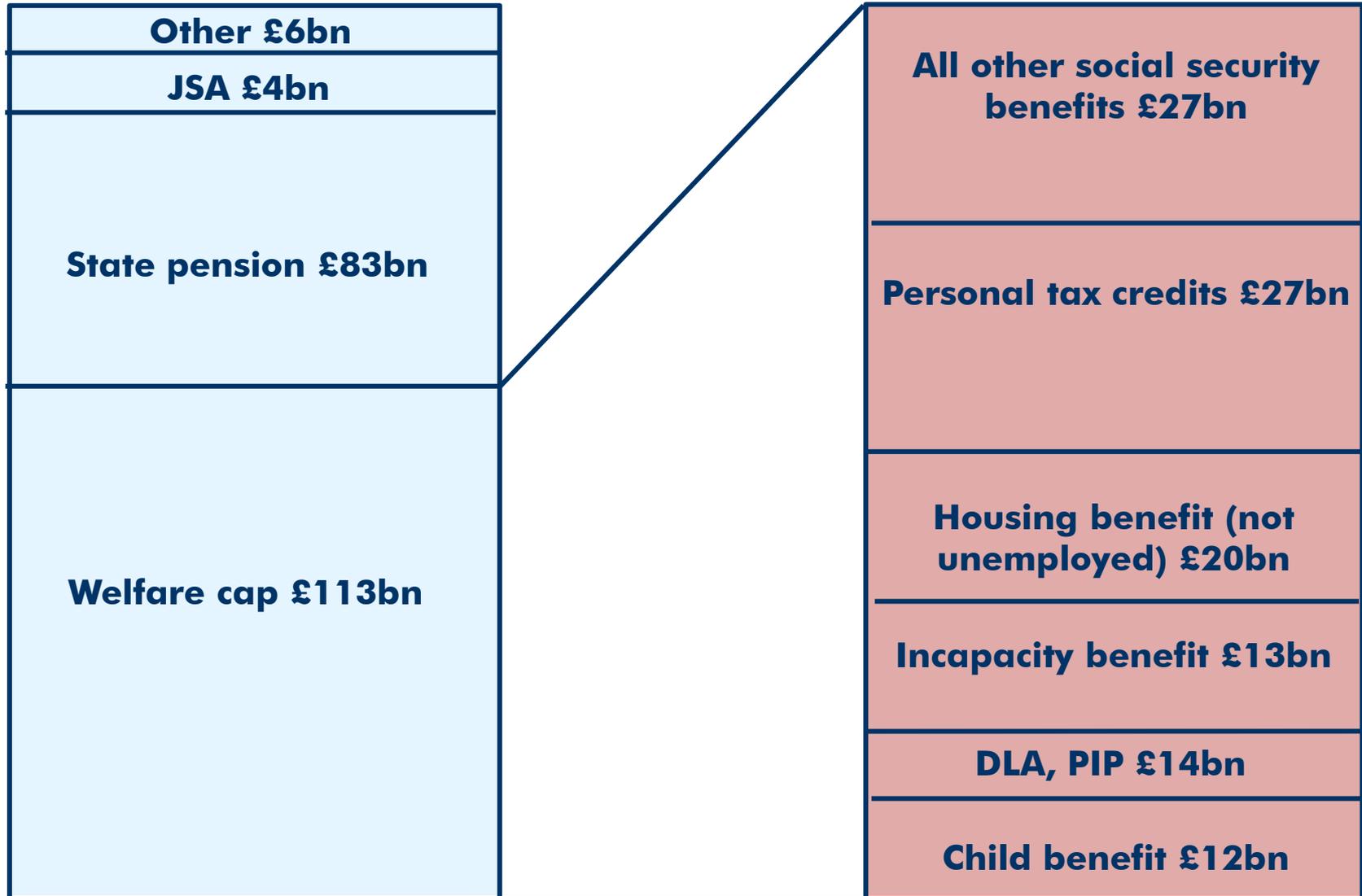
Lessons for future forecasts

- **Nominal GDP matters more than real**
- **Focus on effective tax rates**
- **Ongoing challenges**
 - EU contributions
 - Welfare spending

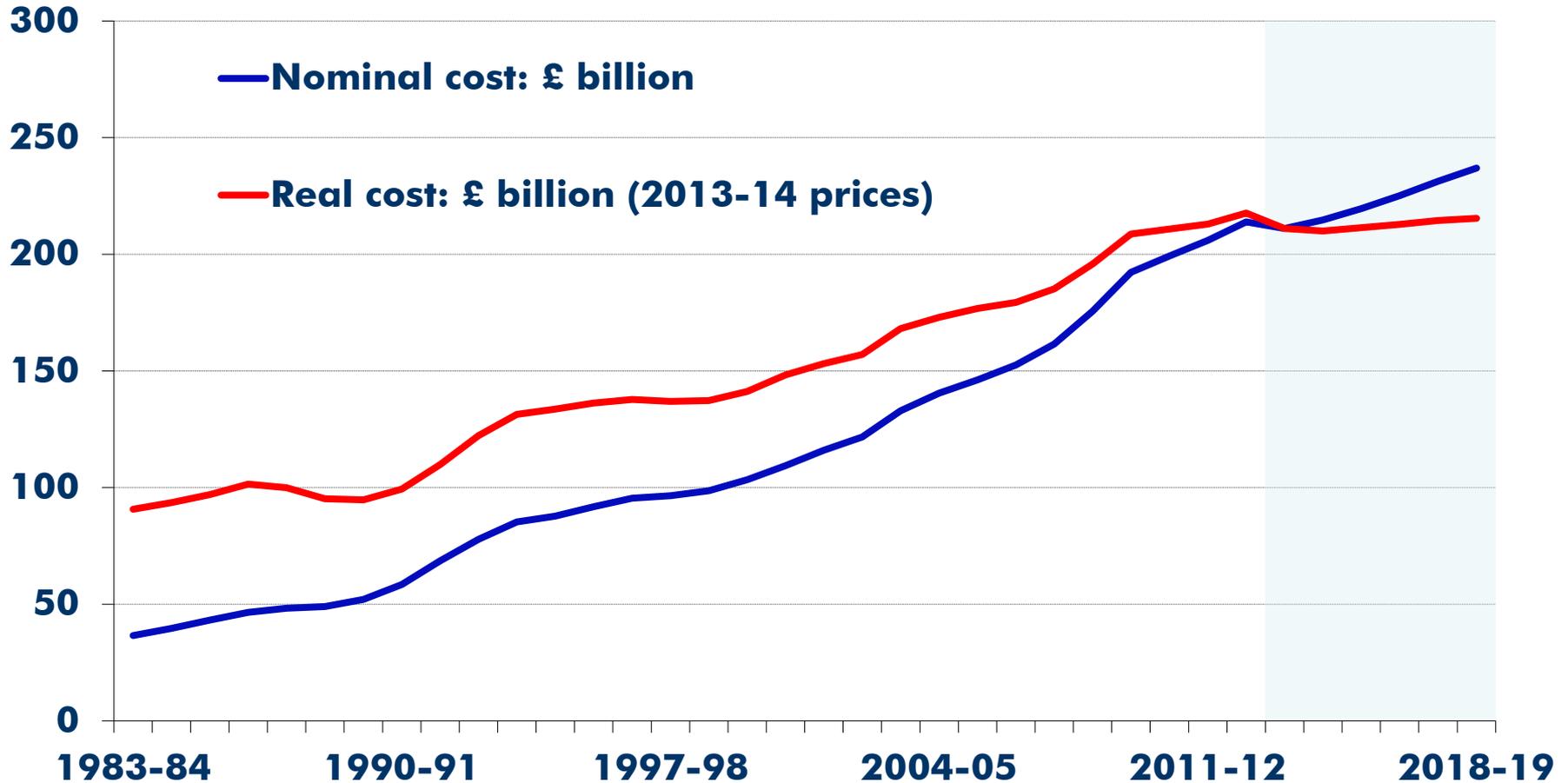
The Welfare trends report

- **Government announced cap on cash spending on a subset of social security benefits and tax credits**
- **We have to assess performance against the cap**
- **And we have been asked to “prepare and publish information on the trends and drivers of welfare spending within the cap”**
- **We will put that in broader welfare context**

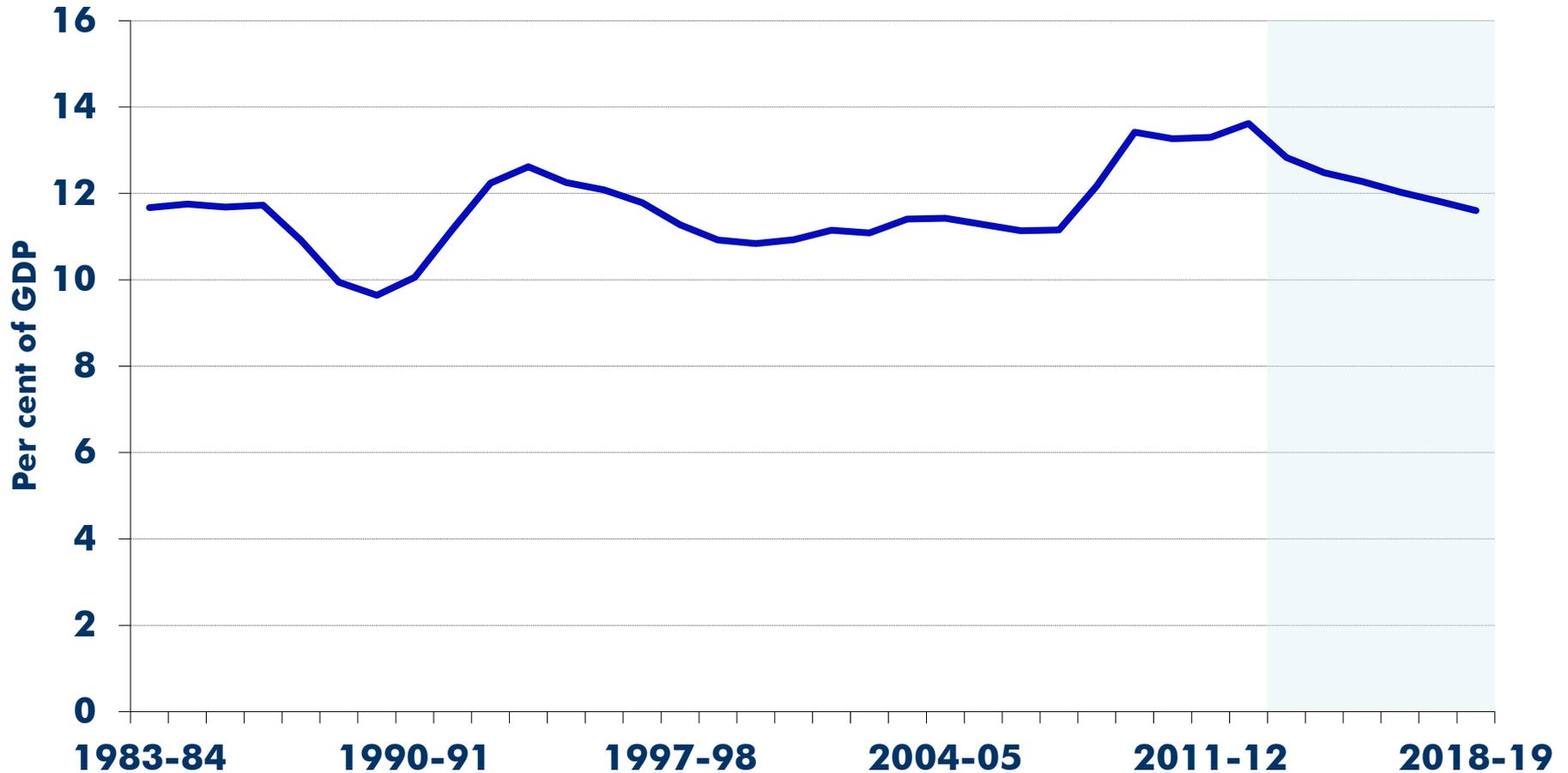
Total welfare spending in the UK



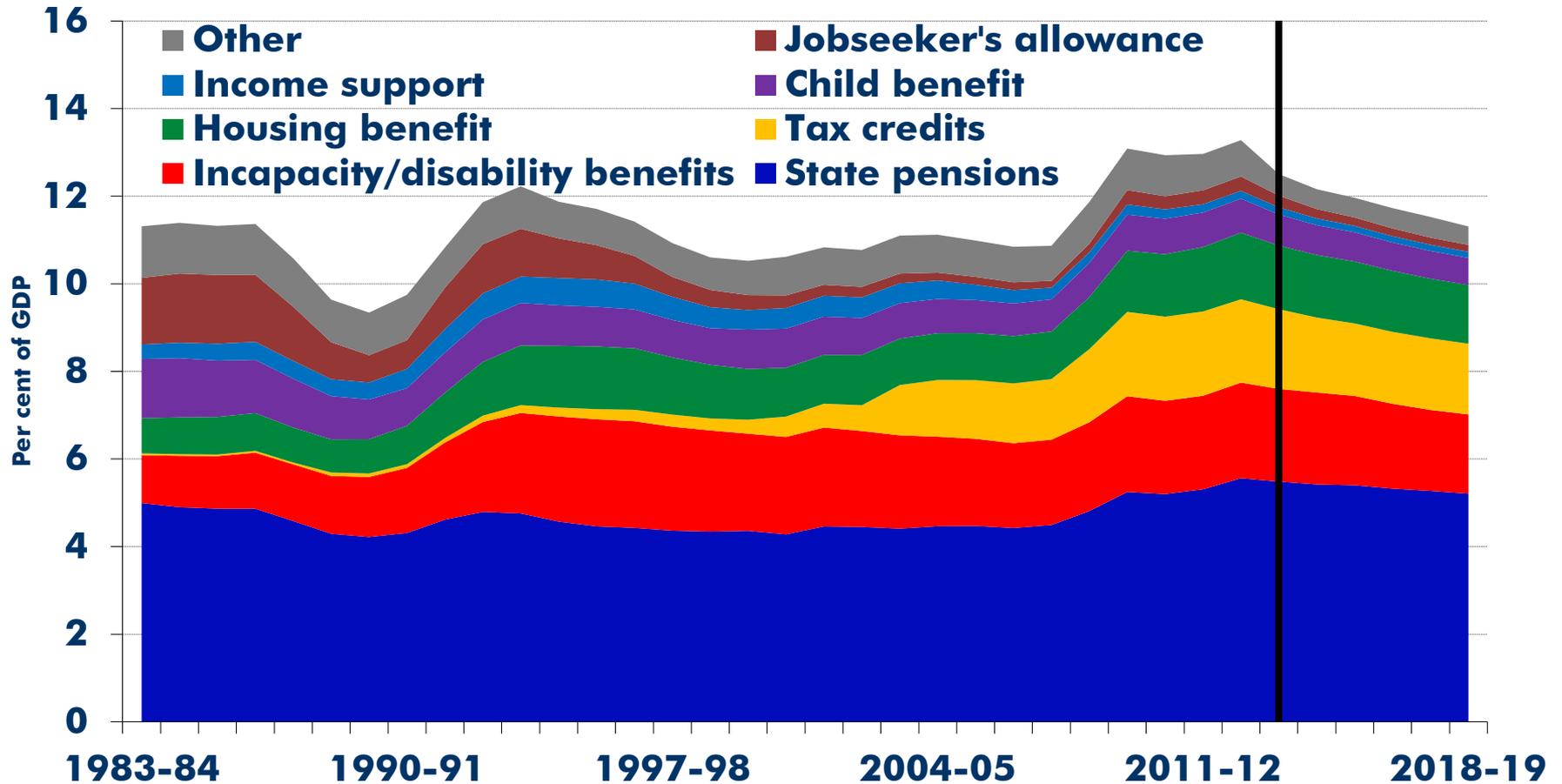
Total welfare spending in the UK



Total welfare spending in the UK



Welfare spending by type of benefit



Key drivers of welfare spending

- **Demographic and economic trends**
- **Impact of major reforms**
- **Take-up**
- **Wider policy decisions**

Changes in welfare spending

	Changes (per cent of GDP)	
	83-84 to 07-08	07-08 to 12-13
State pensions	-0.7	1.1
Housing benefit	0.3	0.4
Tax credits	1.3	0.5
Disability benefits	0.7	0.2
Incapacity benefits	0.0	0.0
Income support	-0.1	-0.1
Unemployment benefits	-1.4	0.2
Child benefits	-0.6	0.0
Other welfare spending	-0.2	0.1
Total welfare spending	-0.5	2.5

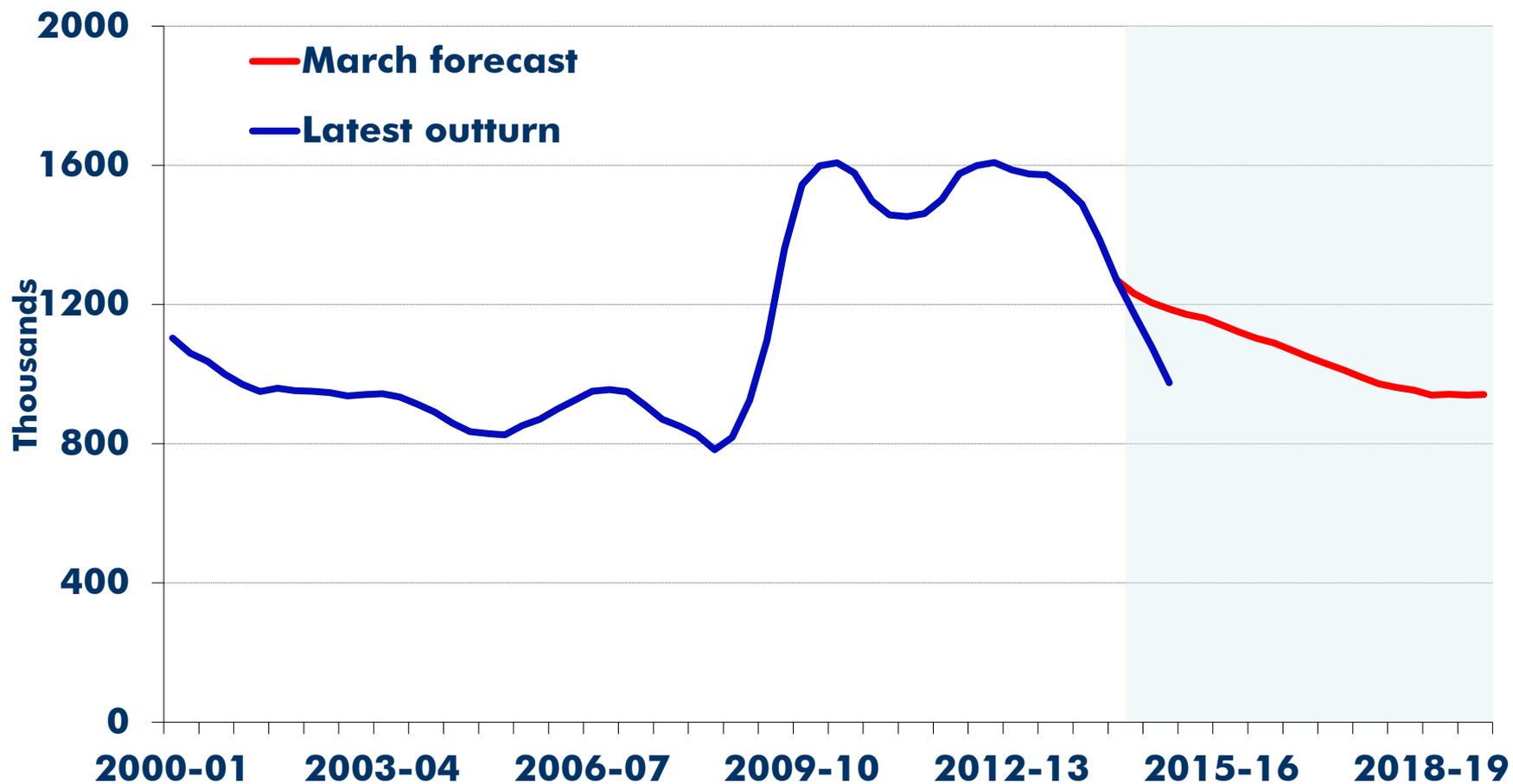
Medium-term forecasts

Changes between 2013-14 and 2018-19 (per cent of GDP)	
Welfare spending subject to welfare cap	-0.9
Tax credits	-0.2
Housing benefit (inside cap)	-0.1
Incapacity benefits	-0.1
Disability benefits	-0.2
Other benefits	-0.3
Welfare spending outside the welfare cap	-0.3
State pension	-0.1
Unemployment benefits	-0.2
Other benefits	-0.0
Total welfare spending	-1.2

Jobseeker's allowance: forecasts

	£ billion	
	2013-14	2018-19
Spending (£ billion)	4.4	3.2
Spending (per cent of GDP)	0.27	0.16
Caseload (millions)	1.3	0.9
Average annual award (£ thousand)	3.4	3.5

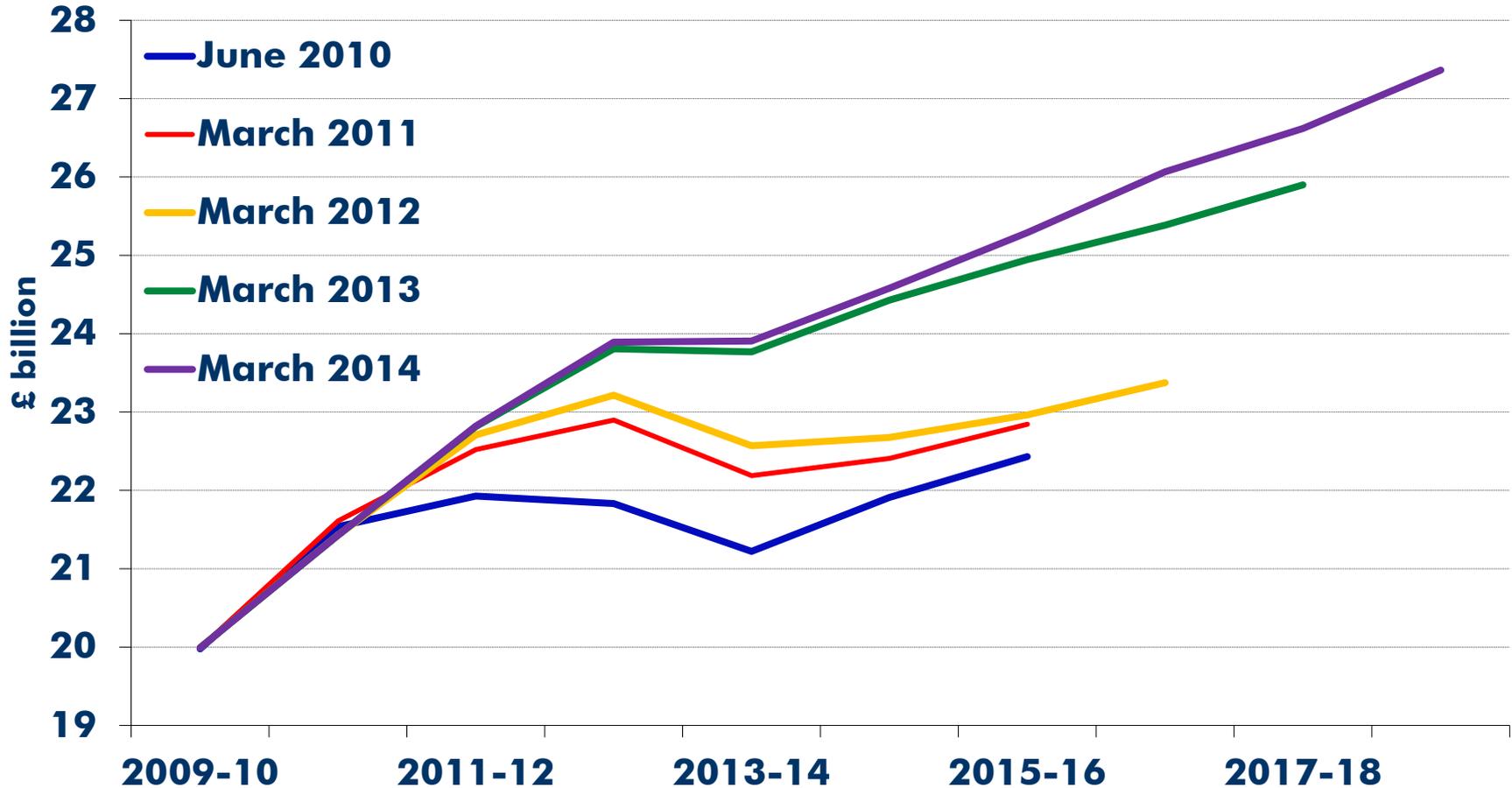
Claimant count unemployment



Housing benefit: forecasts

	£ billion	
	2013-14	2018-19
Spending (£ billion)	23.9	27.4
Inside the welfare cap	20.3	24.2
Outside the welfare cap	3.2	2.7
Locally funded	0.4	0.5
Spending (per cent of GDP)	1.5	1.3
Inside the welfare cap	1.2	1.2
Outside the welfare cap	0.2	0.1
Locally funded	0.0	0.0
Caseload (millions)	5.0	5.2
Average annual award (£ thousand)	4.7	5.3

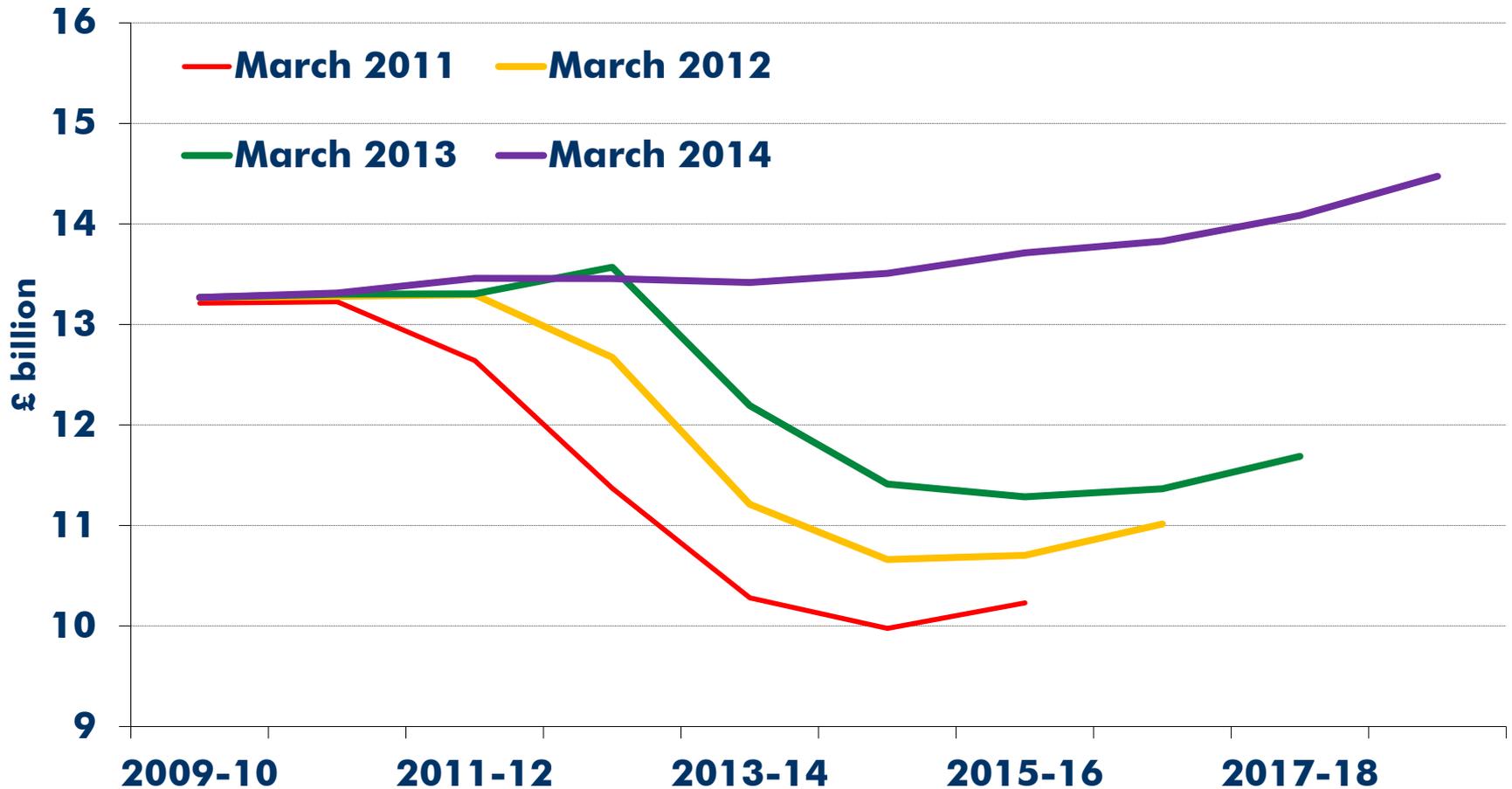
Housing benefit: forecasts



Incapacity benefits: forecasts

	£ billion	
	2013-14	2018-19
Spending (£ billion)	13.4	14.5
Spending (per cent of GDP)	0.8	0.7
Caseload (millions)	2.5	2.4
Average annual award (£ thousand)	5.4	6.0

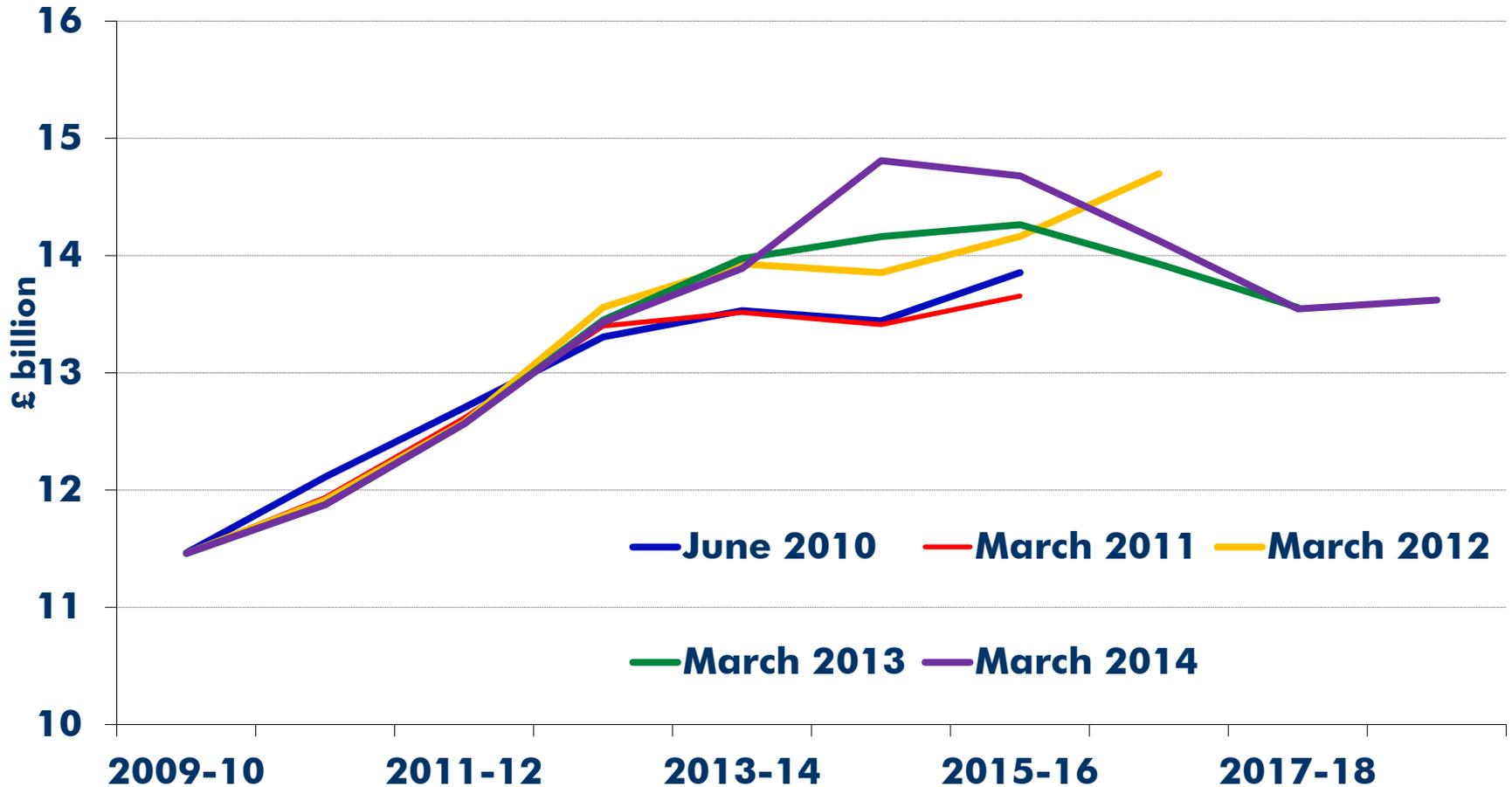
Incapacity benefits: forecasts



DLA/PIP: forecasts

	£ billion	
	2013-14	2018-19
Spending (£ billion)	13.9	13.6
Spending (per cent of GDP)	0.84	0.67
Caseload (millions)	3.3	2.8
Average annual award (£ thousand)	4.2	4.8

DLA/PIP: forecasts



Welfare cap

	£ billion			
	15-16	16-17	17-18	18-19
Welfare cap	119.5	122.0	124.6	126.7
2 per cent forecast margin	2.4	2.4	2.5	2.5

Welfare spending ready-reckoners

Impact on spending in 2018-19 (£ billion) (2015-16 shock, unless otherwise stated)	
Inflation	
1 ppt. increase in CPI inflation affecting 2015-16	1.0
1 ppt. increase in CPI inflation affecting 2016-17	1.7
Labour market	
5 per cent increase in claimant count	0.4
Housing market	
5 per cent increase in number of private renters	1.3
1 per cent increase in housing benefit rents	0.3
Demographics	
1 per cent increase in child benefit caseload	0.1
1 per cent increase in pensioner caseload	1.3