House of Commons

Treasury Committee

Spending Review and Autumn Statement 2015

Sixth Report of Session 2015–16

HC 638

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The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue and Customs and associated public bodies.

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The current staff of the Committee are James Rhys (Committee Clerk), Chloe Challender (Second Clerk), Gavin Thompson (Senior Economist), James Mirza Davies (Committee Specialist), Shane Pathmanathan (Senior Committee Assistant), Amy Vistuer, (Committee Assistant), Elektra Garvie-Adams (Committee Support Assistant), Toby Coaker (on secondment from the NAO), David Hook (on secondment from HMRC), George Barnes (on secondment from the Bank of England) and Foeke Noppert (on secondment from the FCA).

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1 Introduction

Our inquiry

1. The Committee took evidence from four panels of witnesses during three meetings, as follows:

1 December 2015: HM Treasury

Rt Hon George Osborne MP, Chancellor of the Exchequer, Rt Hon Greg Hands MP, Chief Secretary to the Treasury, Clare Lombardelli, Director of Strategy, Planning and Budget, and Julian Kelly, Director General, Public Spending and Finance, HM Treasury.

8 December 2015: Office for Budget Responsibility

Robert Chote, Chairman, Office for Budget Responsibility, Sir Stephen Nickell CBE, Member and Graham Parker CBE, Member, Budget Responsibility Committee.

9 December 2015: economists and the Institute for Fiscal Studies

First panel: James Sproule, Chief Economist and Director of Policy, Institute of Directors, Robert Wood, Chief UK Economist, Bank of America Merrill Lynch, and Simon Kirby, Head of Macroeconomic Modelling and Forecasting, National Institute of Economic and Social Research

Second panel: Paul Johnson, Director, James Browne, Senior Research Economist and Dr Gemma Tetlow, Programme Director, Institute for Fiscal Studies

2. The order of evidence-taking on this occasion was inverted from its usual format. In the past, the Committee has always taken evidence from the Chancellor after hearing from relevant experts and, since its creation in 2010, the OBR. On this occasion, the Committee agreed to hear from the Chancellor first, on 1 December, because this was the only occasion on which he said he was available before the House of Commons rose for recess on 17 December.

3. **In conducting its inquiries into the Budget and Autumn Statement, it is more useful for the Committee to hear from the Chancellor towards the end of the evidence-taking process. This is so that evidence heard from relevant experts can be brought to bear on his questioning. On this occasion, the Committee agreed to change the order of evidence-taking to satisfy exceptional diary commitments of the Chancellor. It does not expect to have to do so again.**

2 Public finances

Changes to the underlying fiscal forecast since July

4. In its November 2015 Economic and Fiscal Outlook, published alongside the Spending Review and Autumn Statement, the Office for Budget Responsibility (OBR) made changes to its forecast that revised down public sector net borrowing, thereby improving the outlook for the public finances.[1]

Table 1: Changes to the underlying forecast for public sector net borrowing since July 2015 (excluding the effect of Government policy decisions in the Spending Review and Autumn Statement; £ billion)

	2015–16	2016 17	2017 18	2018–19	2019 20	2020 21
July forecast	74.1	46.7	26.5	8.2	-8.5	-10.0
Change in receipts	*+2.5*	*+4.1*	*+6.3*	*+5.4*	*+2.8*	*+2.8*
Change in public spending	*+2.0*	*+1.2*	*-1.6*	*-2.6*	*-1.0*	*-1.6*
November forecast	73.6	43.8	18.6	0.2	-12.3	-14.4
Overall change	**-0.5**	**-2.9**	**-7.9**	**-8.0**	**-3.8**	**-4.4**

Source: Office for Budget Responsibility, Economic and Fiscal Outlook—November 2015, presentation slides

The improvements arise predominantly from changes to its forecasts for future interest rates and monetary policy, and corrections and changes to the modelling of certain tax receipts.

Changes to the OBR's forecasts for interest rates and monetary policy

5. Compared with the OBR's July forecasts, debt interest spending is expected to be £6 billion lower by 2020–21.[2] This is partly because the OBR lowered its forecast for interest rates, and partly because it has altered its assumption about the level that the Bank of England base rate would reach before the Bank began to reverse its quantitative easing programme. The OBR had previously assumed that assets (primarily government bonds) purchased by the Bank under the quantitative easing programme would start to be sold once the base rate reached 0.75 per cent (i.e. after the smallest possible rise from its current level of 0.5 per cent).[3] In their latest forecast, the OBR assume that assets will not be sold until the base rate reaches two per cent, thereby pushing back the point at which the first sales take place beyond their five-year forecast horizon. Robert Chote, Chairman of the OBR, explained why this change improved the outlook for the public finances:

1 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153
2 Office for Budget Responsibility, Economic and Fiscal Outlook - November 2015, presentation slides
3 Office for Budget Responsibility, Economic and Fiscal Outlook - November 2015, Chairman's presentation

> when the Government are undertaking QE, they are effectively financing some of their borrowing at bank rate, rather than at gilt rate. Gilt rate is low and has fallen, obviously. It has fallen again in this forecast, but Bank rate is lower. If you are essentially saying that you are not going to reverse QE, or the implication is that you do not start to reverse QE until later, you continue to be able to finance for longer more of the debt at the lower Bank rate, rather than at the higher gilt rate.[4]

6. Mr Chote said that the assumption had been changed in response to guidance published by the Bank in the November 2015 Inflation Report, which stated that the Monetary Policy Committee (MPC) "is unlikely to reduce the stock of purchased assets from its current level of £375 billion until Bank Rate is around 2 per cent".[5] The Bank had previously issued guidance in May 2014 stating that:

> The MPC [monetary policy committee] is likely to defer sales of assets at least until Bank Rate has reached a level from which it could be cut materially, were more stimulus to be required.[6]

7. Mr Chote was asked whether the OBR's prior assumption, that asset sales would begin when the base rate reached 0.75 per cent, was reasonable in the light of the May 2014 guidance. He said that:

> Obviously the Bank of England would have seen that that was the assumption we were making. I cannot remember whether we formally asked them, but we had a brief discussion with them in advance of our forecast, which is a useful exchange of information anyway, on whether that was a sensible interpretation of the policy at the time. They did not have any problem with it then.[7]

8. **The Committee was surprised by the OBR's interpretation of the Bank's May 2014 guidance. That guidance stated that assets purchased under quantitative easing would not be sold until interest rates reached a level from which they "could be cut materially". Such a rate might reasonably have been thought to be higher than the OBR's assumption of 0.75 per cent. The OBR should in future share its assumptions on the future path of monetary policy with the Bank in advance of publishing its forecast, and discuss formally whether these are a reasonable reflection of the guidance issued by the MPC.**

Modelling corrections and changes

9. A correction to the model used to forecast VAT receipts resulted in an £11 billion cumulative improvement to the public finances over the forecast period.[8] The error arose because VAT refunds to central government had previously been forecast on the basis of past trends. However, owing to public spending cuts, deductions relating to the government sector have not in fact risen as quickly as past trends would suggest, an error that Mr Chote said "only really emerged as, over time, we saw the central Government

4 Q119
5 Bank of England, Inflation Report – November 2015, p34
6 Bank of England, Inflation Report – May 2014, p41
7 Q121
8 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Table 4.8

public expenditure cuts mounting".[9] The Economic and Fiscal Outlook states that "the model was insufficiently transparent to pick [the error] up sooner".[10]

10. As with other models used for forecasting tax revenue, the VAT model is "owned" by HMRC. Mr Parker said that it was OBR staff who identified the error during the preparation of the October 2015 Forecast Evaluation Report.[11] Asked whether he had concerns about other "departmental" models used by the OBR, Mr Parker said "I am always concerned".[12] He added that "we have a programme of trying to look at individual models [but] there are restricted resources in HMRC, as well as in the OBR, about how much we can do at one time". Mr Chote said that "it would be good to have the resources to do more scrutiny of the models outside the harvest period [i.e. outside the run-up to fiscal events]".[13]

11. A change to the model used to forecast Class 1 National Insurance Contributions resulted in a £6.6 billion cumulative improvement to the public finances over the forecast period.[14] The previous model, created by the Government Actuary's Department, has been replaced with a HMRC model aligned with that used to forecast PAYE receipts. The OBR justify the change on the grounds that the new model is more transparent, and gives us "more scope to scrutinise and implement key judgements, in particular regarding the average marginal tax rates that drive the receipts forecast".[15]

12. **The OBR is right to review the models it uses, to seek improvements, and to be frank about mistakes made. Given their potential to alter materially the outlook for the public finances, these changes, improvements and corrections should be done well in advance of fiscal events, and their likely impact made clear at that point. This would help to avoid the mistaken impression that the OBR was fixing its forecasts to suit the Government.**

A £27 billion "windfall"?

13. Revisions to the OBR's forecasts for the public finances were widely interpreted as providing the Chancellor with a £27 billion "windfall" over the coming five years. The Chancellor endorsed this interpretation in his speech to the House on the Spending Review and Autumn Statement (hereafter, simply "Autumn Statement"), and argued that the revisions in question were the result of an improving economic outlook:

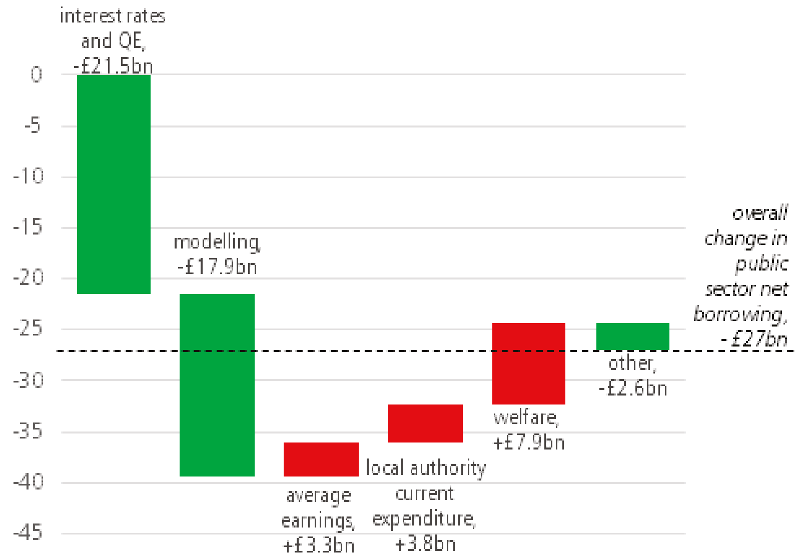
> First, the OBR expects tax receipts to be stronger. A sign that our economy is healthier than thought.
>
> Second, debt interest payments are expected to be lower–reflecting the further fall in the rates we pay to our creditors.
>
> Combine the effects of better tax receipts and lower debt interest, and overall the OBR calculate it means a £27 billion improvement in our public finances over the forecast period, compared to where we were at the Budget.[16]

9 Q194
10 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Box 4.2
11 Q196
12 Q198
13 Q199
14 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Table 4.8
15 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Box 4.2
16 HC Deb, 25 November 2015, Col 1359

14. Chart 1 breaks down the £27 billion into its component parts and shows that the 'windfall' is driven predominantly by changes to lower debt interest payments (in turn driven by changes to the OBR's interest rate and monetary policy assumptions), and modelling changes. Revisions to the OBR's forecast for welfare spending (revised upwards), local authority expenditure (revised upwards) and average earnings (revised downwards), counteract the "improvement" from these sources.

Chart 1: changes to the OBR's underlying forecast for public sector net borrowing, broken down by source of change, 2016–17 to 2020–21

November vs July 2015; figures exclude the impact of policy measures announced in the Autumn Statement; negative figures (green bars) indicate a reduction in net borrowing and positive figures (red bars) indicate an increase



Source: adapted from Office for Budget Responsibility, Economic and Fiscal Outlook—November 2015, presentation slides

15. The £27 billion figure refers to the cumulative improvement in the public finances over the five-year forecast period (2016–17 to 2020–21). The changes in each individual year are considerably smaller, and never exceed £8 billion. Paul Johnson, Director of the Institute for Fiscal Studies, advocated focussing on annual improvements, and described the £27 billion as a "silly number".[17] In evidence to the Committee, Rob Wood, Chief UK economist at Bank of America Merrill Lynch, said that the improvement was "relatively a small number compared to the tax take over that period".[18] Robert Chote cautioned against assuming that £27 billion would in fact materialise:

> You only have to look at every previous autumn statement that we have done to see that sometimes those forecasts go in your favour; sometimes they go against. They normally move by larger amounts than this one has.[19]

16. **The improvements to the fiscal forecast were driven not by a fundamentally better economic outlook, as the Chancellor suggested, but by changes to the OBR's modelling and assumptions. The OBR has altered its models and assumptions in a way that is**

17 Remarks on the Today programme, BBC Radio 4, 26 November 2015
18 Q233
19 Q155

favourable to the public finances on this occasion. It may subsequently alter them in an unfavourable way. Moreover, the focus on the £27 billion cumulative change over the five year forecast period distracts attention from the fact that the annual improvements were small, and certainly of a scale that could be revised away in the future. What was widely interpreted as a "windfall" may well prove illusory.

Changes to taxation

17. In his speech to the House of Commons on the Autumn Statement, the Chancellor reiterated the commitment made in his Summer Budget speech to move Britain to a "higher wage, lower welfare, lower tax society".[20]

18. The Summer Budget announced measures that, overall, increased the tax take, with tax rises reaching £15.9 billion by 2020–21—including rises in dividend taxation, insurance premium tax and vehicle excise duty—only partly offset by tax cuts of £9.4 billion by 2020–21, including a two percentage point reduction in the main corporation tax rate.[21]

19. The Autumn Statement also saw the announcement of measures that will, overall, increase tax revenues. Combined with the measures announced in the Summer Budget, these will result in tax take being £14 billion higher by 2020–21 (and the cumulative tax take over the coming five years £50 billion higher). Together with the effect of revisions to its macroeconomic forecast, changes to taxation in the Summer Budget and Autumn Statement combined have caused the OBR to revise up its forecast for the 'tax burden', as measured by the tax-to-GDP ratio, from 33.3 per cent to 34.2 per cent in each year from 2016–17 to 2019–20.[22]

20. Among other things, the Finance (No.2) Act 2015, passed after the Summer Budget, implemented the "triple tax lock" promised by the Government during the election campaign. This prevents income tax, VAT and national insurance contributions rising above their current (2015–16) levels during the course of the Parliament. Collectively, these taxes account for around three-quarters of central government tax receipts.[23] Following the Summer Budget, Jonathan Portes, Principal Research Fellow at the National Institute of Economic and Social research, and Philip Booth, Programme Director at the Institute for Economic Affairs, gave evidence to the Committee that was critical of the tax lock. Mr Portes said:

> the result [of the tax lock] is that since the Government did feel it needed to put up taxes, you end up, as under the previous Government, with stealth taxes; taxes that nobody, certainly not me, understands.[24]

21. Mr Booth agreed, stating that "The very last thing we need to do is legislate to not increase taxes that are about as transparent as they come".[25] Paul Johnson argued that the case for a tax lock was weaker than the case for ringfencing government spending:

20 HC Deb, 8 July 2015, Col 321
21 Office for Budget Responsibility, Economic and Fiscal Outlook - November 2015, Chairman's presentation
22 Office for Budget Responsibility, Economic and Fiscal Outlook – March 2015, Cm 9024, Table 4.4; Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Table 4.5
23 HMRC, Tax and NICs receipts: statistics tables, December 2015
24 Q28
25 Q29

> It feels to me there is a less obvious economic rationale for tying your hands on that than there is on the spending side. The spending side is a clear statement about what Government priorities are. Tying your hands on what you might do to the tax system three years hence, it is less easy to see a reason for that other than a purely political one.[26]

22. The additional tax revenues expected over the coming five years consequently come from other sources, including:

- An apprenticeship levy, raising £11.6 billion over the forecast period, and described by Robert Chote as "by some distance the most important" tax increase in the Autumn Statement[27]
- An increase in stamp duty rates for buy-to-let and second homes, raising £3.8 billion over the forecast period[28]
- New flexibilities for local authorities to raise council rates, in particular a 2% social care precept, expected to result in a £6.2 billion increase in council tax over the forecast period[29]

23. Paul Johnson described the Autumn Statement as "a tax raising budget".[30] In evidence to the Committee, he said that "the […] important thing he [the Chancellor] has done, though, certainly if you put the July budget and Autumn Statement together, is raise taxes, which has also allowed him to spend a bit more".[31]

24. Asked whether the measures in the Autumn Statement and Summer Budget were consistent with his goal of a low-tax economy, the Chancellor said they were "perfectly consistent".[32] He added that the apprenticeship levy was "not a normal or usual tax in that sense" because "you can receive the money back". On the new council tax flexibilities, he said that:

> It is […] up to councils whether they want to make use of it. I suspect many will, but what we are doing is essentially changing an administrative bar on the council tax that currently exists and raising the cap, creating certain conditions around that about how the money is spent.[33]

25. The Chancellor was also asked by the Committee whether the revenue-raising measures in the Summer Budget and Autumn Statement were "stealth taxes". He said that "I do not see how you could describe council tax and an apprenticeship levy as a stealth tax, as they are pretty transparent and straightforward. Everyone understands what they are".[34] He went on to describe "stealth taxes" as "things that people did not realise were even taxes they had to pay and then not announcing them in budget speeches".[35]

26 Q81
27 Office for Budget Responsibility, Economic and Fiscal Outlook - November 2015, Chairman's presentation
28 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Table A.1
29 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Para 1.8
30 Institute for Fiscal Studies, Autumn Statement 2015 briefing: Paul Johnson's opening remarks, 26 November 2015
31 Q237
32 Q39
33 Q39
34 Q43
35 Q44

26. **The tax-burden, which was 33.0 per cent of GDP in 2014–15, will rise to 34.2 per cent by 2017–18. The Chancellor's objective of moving to a "lower tax society" was not advanced by the measures contained in either the Summer Budget or the Autumn Statement. These will raise the tax burden faced by individuals and businesses, through new taxes, including the apprenticeship levy and the stamp duty surcharge, and the raising of less salient ones, including dividends and insurance premium taxes.**

27. **The need to raise further tax revenues is understandable, given the imperative to reduce public borrowing. The "tax lock", which prevents rises in national insurance, income tax and VAT, appears to be leading the Treasury to find additional revenues in less conventional ways.**

Making tax digital

28. According to the Association of Chartered and Certified Accountants (ACCA), the most significant tax announcement of the Blue Book was the proposals for "Making Tax Digital".[36] This is a programme to move to a fully digital tax system that the Autumn Statement declared would "give individuals and businesses a more convenient real-time view of their tax affairs, providing them with greater certainty about the tax they owe".[37] All of the written submissions from tax bodies expressed concern over the proposals to make it mandatory for businesses to give HMRC quarterly updates and scepticism at the way that this would contribute to a cost saving for businesses of £400 million by the end of 2019/20 as well as considerable uncertainty as to how it will operate.[38] In oral evidence, the OBR stated that the estimates of Government revenues from the Making Tax Digital programme (£920 million over the forecast period) were based on an HMRC survey of the types of errors made in tax returns.[39] The Economic and Fiscal Outlook ascribes a high uncertainty rating to these figures.[40]

29. A discussion paper issued by HMRC on 14 December 2015, also indicates that the Making Tax Digital programme may lead to tax being paid earlier. Under a section entitled "smaller, more regular payments", it states:

> For businesses and individuals, there are variable periods of time between the activity generating the tax liability and the payment date. These lags made sense in a paper-based world where it took time to gather the information to calculate liabilities. But in an increasingly digital world, taxpayers should not have to wait until after the end of their tax year or accounting period to understand how much tax is likely to be due, or to receive any repayments.[41]

30. **Increased digital interaction with HMRC by taxpayers may carry benefits, provided it reduces the administrative burden on them without affecting the amount of revenue collected.**

36 ACCA, December 2015 memorandum on the fundamental principles of tax policy and Autumn Statement 2015, para 13

37 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, Para 1.288

38 CIOT, Treasury Committee Principles of Tax Policy and Autumn statement 2015, para 2.3; ICAEW Traffic Light Assessment Autumn Statement 2015, para 6.2; ACCA December 2015 memorandum on the fundamental principles of tax policy and Autumn Statement 2015, para 24

39 QQ188-90

40 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Table A.1

41 HM Revenue & Customs, Making Tax Digital: Discussion paper on simpler payments, 14 December 2015, Para 11

31. **However, some elements of HMRC's Making Tax Digital plans, most notably the quarterly reporting requirement for all businesses, may create additional burdens for taxpayers. HMRC's discussion paper implies that it could even require them to pay tax before it is legally due. It is premature to make the case for these plans on the grounds of simplicity and convenience for taxpayers. The main benefits appear to arise largely from additional revenue to the Exchequer, partly at the expense of cash flow to businesses where they need to pay their tax earlier, and partly as a result of a reduction in errors. Much more consultation over the detail is required before this policy is implemented. Legitimate concerns of businesses about the burden that may be caused by this policy need to be addressed by HMRC and the Treasury.**

Welfare spending

Changes since the Summer Budget

32. At the end of the last Parliament, the Chancellor stated that he intended to cut the welfare bill by £12 billion by 2017–18.[42] In the Summer Budget, welfare changes were announced that made savings of £12 billion, although not until 2019–20.[43]

Policy changes affecting welfare spending

33. In the Autumn Statement, the Government announced a number of measures that will increase welfare spending over the coming five years, compared with what was planned in the Summer Budget. By far the most important of these is the decision to reverse two changes to tax credits announced in the Summer Budget. In particular, the income threshold above which tax credits start to be withdrawn, originally planned to fall to £3,850, will remain at £6,420, while the rate of withdrawal (the 'taper rate'), planned in the Summer Budget to increase to 48 per cent, will remain at 41 per cent.[44]

34. The Autumn Statement did not, however, reverse reductions to work allowances in universal credit (analogous to income thresholds under the tax credits system). These will fall to £4,765 for those without housing costs, to £2,304 for those with housing costs, and be removed altogether for non-disabled claimants without children. As claimants are expected to be 'migrated' from tax credits to universal credit over the forecast period, the effect of the policy 'reversal' in the Autumn Statement is to increase welfare spending in the near-term, but to reduce it towards the end of the forecast period.[45] The revised commitment to achieve a £12 billion reduction in the welfare bill by 2019–20 will therefore continue to be met, on current forecasts.[46]

Forecasting changes affecting welfare spending

35. In addition to policy changes, revisions to the OBR's forecasts since July have also caused an increase in expected welfare spending. In particular, the OBR has revised its assumption about how long it will take DWP and its contractors to complete the reassessment of working-age disability living allowance claimants during the move to

42 HC Deb, 18 March 2015, Col 771
43 Office for Budget Responsibility, Economic and Fiscal Outlook – July 2015, Cm 9088, Para 1.7
44 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, Para 1.122
45 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Table 4.23
46 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, Para 1.127

personal independence payments. As a consequence, spending on disability benefits has been revised up substantially.[47]

36. The OBR also pushed back their forecast for the rollout of universal credit, the latest in a series of revisions that mean the number of claimants in 2016–17 is now expected to be five per cent of what was forecast in March 2013.[48] This has had the effect of lowering welfare spending forecasts "because it postpones the costs associated with those that stand to gain from universal credit and also those that stand to receive transitional protection payments because they would lose from universal credit".[49]

Compliance with the 'welfare cap'

37. In the 2014 Budget, the Government introduced controls over some elements of annually managed expenditure (AME) on welfare.[50] Specifically, this 'welfare cap' requires forecast expenditure for each of the following five years to be within limits set by the Treasury. Details of the cap's operation are set out in the Charter for Budget Responsibility, which requires the OBR to assess whether forecast welfare expenditure falls within the set limits.

38. If forecast spending exceeds the level of the cap, this need not mean that the cap is treated as having been breached. Whether it has in fact been breached depends on whether or not the changes to forecast spending that cause the cap to be exceeded arise from a discretionary policy change on the part of the Government. In the case of such changes, there is no leeway, and a breach occurs if forecast spending exceeds the cap. In the case of all other changes to forecast spending (e.g. a revision to the OBR's labour market outlook), the cap is only breached if forecast spending exceeds the stated cap plus a 2 per cent "forecast margin".[51]

39. The OBR judges that the welfare cap will be breached in 2016–17, 2017–18 and 2018–19, largely due to policy changes, including the reversal of planned changes to tax credits. In 2019–20 and 2020–21, it judges that the cap will be observed. However, this is only by virtue of a change in how local authorities will be funded for the management of temporary accommodation, which shifts the classification of such spending from AME to DEL. Although the rules governing the welfare cap require it to be adjusted to reflect "fiscally neutral classification changes", the Government made the case to the OBR that this change should not result in an adjustment because it "will allow and encourage local authorities to spend the money in different ways".[52] Dr Gemma Tetlow, Programme Director at the IFS, said:

> He [the Chancellor] did not formally breach the cap, but the way he managed to do that was by reallocating an item of spending [support for temporary accommodation] out of welfare and moving it to local government spending, instead. […] It just raises an issue that there are three ways of getting yourself within the cap. One is active policy change; one is forecasting changes that work in your favour; and the third is reclassification of items of spending. It

47 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Table 4.23
48 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Chart 4.8
49 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Para A.28
50 HM Treasury, Budget 2014, para 1.76
51 HM Treasury, Charter for Budget Responsibility: autumn 2015 update, October 2015
52 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Para 5.24

> raises the issue of the transparency of the distinctions between those things, and how they get used.[53]

40. In the event of a breach, the Charter for Budget Responsibility requires the Government to debate a votable motion in the Commons. The motion must propose measures which bring spending back within the cap; seek approval for the level of the welfare cap margin to be increased; or explain why a breach of the cap is justified. A debate on a motion that the breach was "justified and that no further debate will be required in relation to [it]" was held on 16 December 2015, and the motion was agreed to.[54]

41. **The decision to reverse planned changes to tax credits has caused the Government to breach its welfare cap in each of the first three years of the forecast period. The Government are meeting the cap in the final two years of the forecast because the OBR agreed to certify the change to the funding of local authority temporary accommodation as an expenditure-cutting policy decision, rather than a fiscally neutral classification change. It is not clear that this measure will materially reduce welfare expenditure. The OBR should explain, in full, why it has certified this as a policy change. The OBR should also explain whether it believes the welfare cap to be vulnerable to 'gaming' by the Treasury, given the lack of clarity about what constitutes a policy measure, as opposed to a classification change.**

Changes to departmental spending

Severity of cuts

42. The cuts to departmental budgets made in the Spending Review were less severe than many had expected. The forecasts made by the OBR in July 2015 implied that average cuts of 27% would have to be made to the resource spending of unprotected departments,[55] and the Treasury itself invited departments to set out plans for reductions in their resource budgets of 25% and 40%, in real terms, by 2019–20.[56] In the end, the average real-terms cut for unprotected departments was 18%.[57] At an annual average of 1.1 per cent, the pace of real terms departmental cuts over the coming Parliament is expected to be slightly lower than the 1.6 per cent seen in the last Parliament.[58]

43. Paul Johnson summarised why the Chancellor was able to moderate departmental spending cuts (and make an equally unexpected reversal to planned changes in tax credits, discussed in the previous section), while still keeping within the fiscal mandate to run a surplus by 2019–20:

> [The Chancellor] has banked some changes in forecasts for lower debt interest payments and higher tax revenues. That was lucky. By adding some tax increases he has made some of his own luck.

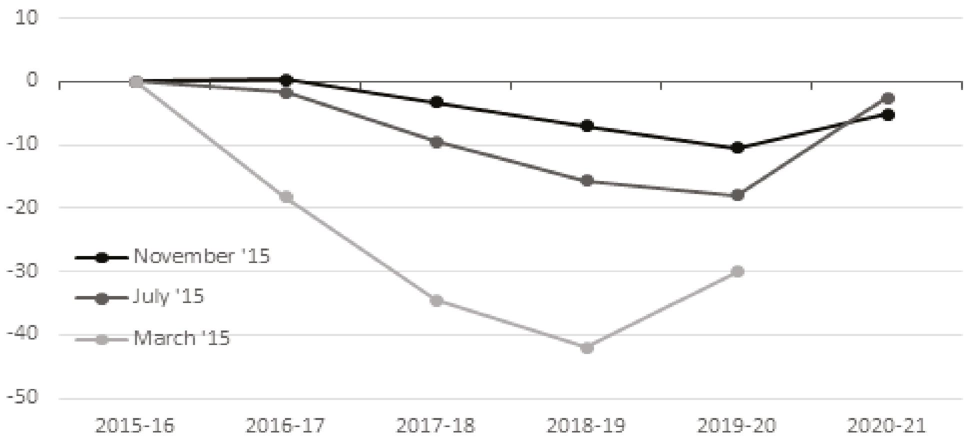
44. Mr Johnson added that "this spending review is still one of the tightest in post war history".[59]

53 Q288 and Q291
54 HC Deb, 16 December 2015, Col 1650
55 Institute for Fiscal Studies, The Outlook for the 2015 Spending Review, Briefing Note BN176, October 2015
56 HM Treasury, A country that lives within its means - Spending Review 2015, Para 1.12, July 2015
57 Institute for Fiscal Studies, Autumn Statement 2015 briefing: Paul Johnson's opening remarks, 26 November 2015
58 Office for Budget Responsibility, Economic and Fiscal Outlook - November 2015, Chairman's presentation
59 Institute for Fiscal Studies, Autumn Statement 2015 briefing: Paul Johnson's opening remarks, 26 November 2015

45. Chart 2 illustrates how plans for day-to-day spending on public services have changed. In March 2015, real-terms cuts were expected to peak at £42 billion; by contrast, the November 2015 forecasts show cuts reaching a peak of just £10 billion. Robert Chote said that "public services spending is on much less of a rollercoaster than in March and on a less bumpy ride even than in July".

Chart 2: change in real-terms day-to-day spending on public services*, comparison of forecasts since March 2015

relative to 2015–16, £ billion



* defined as resource departmental expenditure limits

Source: Office for Budget Responsibility, Economic and Fiscal Outlook–November 2015, Cm 9153, Chart 1.8

Ringfenced expenditure

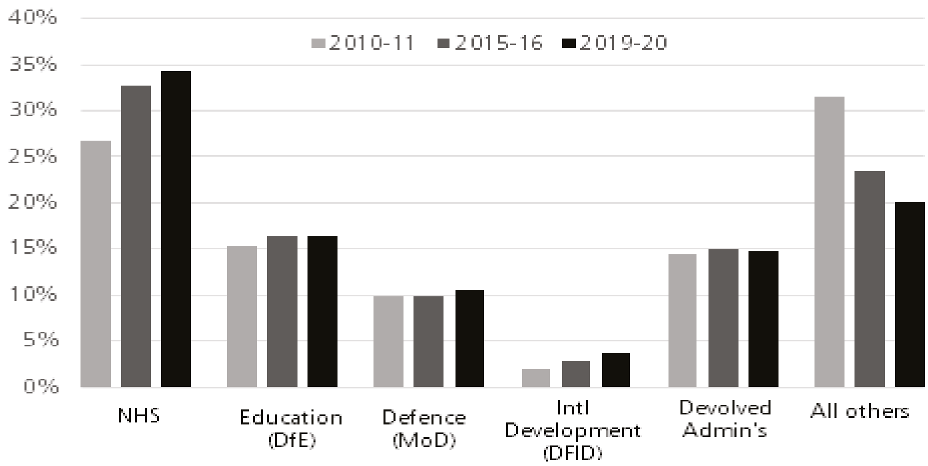
46. The Coalition Government followed a policy of protecting, or 'ring fencing', certain elements of public expenditure. The new Government has continued with this policy, reaffirming in the Summer Budget some existing protections, including overseas aid[60] and the 'triple lock' on the State Pension,[61] and enhancing others: real-terms NHS spending is planned to rise by £10 billion between 2014–15 and 2020–21.[62]

47. The Summer Budget also expanded the ring fence to include new areas of public expenditure: the Chancellor pledged to increase the budget for the Ministry of Defence by 0.5% per year in real terms until 2020–21 and to protect the counter-terrorism budget in real terms over the same period.[63] Child benefit will also continue to be paid at the same level for all children.[64]

48. As a consequence of this 'ringfencing', and the fact that the budgets of the devolved administrations fell outside its scope, the Spending Review covered just 23 per cent of departmental expenditure.[65] As Chart 3 shows, the proportion of spending going to non-ringfenced areas will continue to decline over the review period.

60 HC Deb 8 July 2015 c337 (Financial Statement)
61 HM Treasury, Summer Budget 2015, para 1.139, p37
62 HM Treasury, Summer Budget 2015, para 1.78, p26
63 HM Treasury, Summer Budget 2015, para 1.81, p26
64 HM Treasury, Summer Budget 2015, para 1.148, p38
65 HM Treasury, Public Expenditure Statistical Analyses 2015, Chapter 1: departmental budgets tables, Cm 9122, July 2015

Chart 3: departmental spending—proportion of total accounted for by selected departments



Sources: HM Treasury, Public Expenditure Statistical Analyses 2015, Chapter 1: departmental budgets tables, Cm 9122, July 2015; HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162 (various tables)

49. In evidence following the Summer Budget, Paul Johnson commented on the implications of ringfencing for the shape of the state:

> the consequences are that the shape of public spending, the shape of the state, will be very different in 2020 to what it was in 2010 and certainly from what it was in 2000 with much, much more going on, particularly health and pensions, and much less on most other parts of public spending. I think that is an important political debate, in a sense, about whether that is the right shape and that is a shape that will become more like that going forward under current policy as the population ages.[66]

50. The previous Treasury Committee considered the effects of ring fencing in its Report on the 2014 Budget and concluded that it "weakens rigorous scrutiny of spending".[67] In its Report on the 2013 Budget, the Committee concluded that ringfencing "can lead to waste or worse and it can distort the balance of spending as a whole".[68]

51. The economists that the Committee heard from following the Summer Budget agreed that the ringfencing of public expenditure could cause problems, although Jonathan Portes said that it was unlikely to affect the trajectory of health spending:

> The level of health spending projected for the next parliament is the bare minimum that any government would have had to do for perfectly good and sensible political reasons anyway.[69]

52. Paul Johnson agreed:

> […] it is hard to believe that spending on health, for example, would have been a lot different under a world in which you did not have that ring fence.[70]

66 Q81
67 Treasury Committee, Thirteenth Report of Session 2013–14, Budget 2014, HC 1189, Para 89, p33
68 Treasury Committee, Ninth Report of Session 2012–13, Budget 2013, HC 1063, Para 137, p63
69 Q25
70 Q81

53. When asked by the Committee about ringfencing, the Chancellor said that it amounted to "an expression of our political priorities, the priorities of the Government, to invest in our health service, invest in our schools and the like, and protect our country". He acknowledged that ringfencing certain areas of public spending "obviously increase[s] pressures elsewhere in government, but government is ultimately about making those choices".[71]

54. Jonathan Portes made a similar point, noting that ringfencing was done for "political reasons", while Philip Booth said it was done "to satisfy the demands of certain interest groups".[72]

55. **The press release accompanying the Spending Review stated that it "sets out how £4 trillion of government money will be allocated over the next five years". In fact, three-quarters of departmental expenditure and three-fifths of welfare spending was already locked in before the Spending Review process had even begun, by political commitments to protect certain areas of spending, and by block grants to devolved administrations, which are governed by the Barnett formula.**

56. **The proportion of spending that is ringfenced by commitments on the NHS, defence, international development, schools and pensioner benefits will continue to increase over the course of the Parliament, dramatically altering the shape of spending, and with it, the role of the state. The Committee agrees with the Chancellor that this ringfence is an "expression of… political priorities". But these priorities should at least have been subject to discussion and fuller explanation in the Spending Review. Even if the Government's spending priorities were left unaltered, the implications of maintaining protections for certain areas of spending could have been brought into clearer focus and the scrutiny of spending decisions in these areas improved.**

Balance of fiscal consolidation

57. The previous Government stated that it intended to follow a deficit reduction "rule of thumb" that would see 80 per cent of reductions arising from spending cuts and 20 per cent from revenue increases.[73] Based on the OBR's forecasts in March 2015, almost all the planned fiscal consolidation over the five-year forecast period (2015–16 to 2019–20) was expected to come from spending cuts. The July forecasts made at the Summer Budget saw a shift in the balance to 80:20 (looking at the period 2016–17 to 2020–21), while the latest (November) forecasts, indicate a further shift to 75:25 over the same period.

58. **Compared to plans made in March, the Chancellor has used the July Budget and the Autumn Statement to rebalance the planned fiscal consolidation away from spending cuts and towards tax rises. In responding to this report, the Treasury should explain whether, in pursuing further fiscal consolidation, it is continuing with the policy of an 80:20 split between spending cuts and tax rises.**

71 Q65
72 Q25
73 HC Deb, 22 June 2010, Col 169

Fiscal risks and the "fiscal surplus rule"

59. Alongside the Summer Budget, the Government published a draft Charter for Budget Responsibility,[74] intended to replace the previous version, which was published with the Autumn Statement in December 2014 and approved by Parliament the following January. Before it was approved by the House of Commons, that draft Charter was superseded by another one,[75] which contains the same fiscal targets but makes changes to the OBR's duties following the Treasury-led review of its work.[76] Approval of the latest Charter by the House of Commons took place on 14 October 2015.

60. The December 2014 Charter set out 'aims' for the cyclically adjusted current budget to be balanced by the end of the third year of the rolling forecast period, and for public sector net debt as a percentage of GDP to be falling in 2016–17.

61. The new Charter replaces these two aims with 'targets':-

a) A surplus on public sector net borrowing by 2019–20. Once a surplus has been achieved, the target requires that it must be maintained

b) Public sector net debt as a percentage of GDP to be falling in each year until 2019/20

62. The targets are to apply unless the OBR assesses as part of its economic and fiscal forecast that "there is a significant shock to the UK". This is defined in the Charter as "real GDP growth of less than 1% on a rolling 4 quarter-on-4 quarter basis.[77]

63. In its November 2015 Economic and Fiscal Outlook, the OBR forecasted that the Government would run a surplus of £10 billion in 2019/20, thereby meeting its target. The OBR went on to conclude that, while the Government was "more likely than not" to meet the target, based on past forecasting errors, there was a 45 per cent probability that it would be missed.[78] It listed a number of circumstances under which the target would be missed, including:

- Potential output of the economy being 0.8 per cent lower than estimated
- Whole economy prices rising by 1.1 per cent less than expected over the forecast period
- Interest rates being 0.9 percentage points above market expectations by 2019–20
- The tax-to-GDP ratio being 0.5 percentage points lower than forecast[79]

64. Asked how the Government would respond to a future change in the forecast that led to the target being missed, Clare Lombardelli, Director of Strategy, Planning and Budget, said that a decision would be taken if and when that occurred: "The surplus is projected on the forecast that we have now. Should that forecast change, then the Government will make decisions about whether or not it needs to change policy in response to that".[80]

74 HM Treasury, Charter for Budget Responsibility: Summer Budget 2015 update, July 2015
75 HM Treasury, Charter for Budget Responsibility: Autumn 2015 update, September 2015
76 HM Treasury review of the Office for Budget Responsibility, 3 September 2015
77 HM Treasury, Charter for Budget Responsibility: Autumn 2015 update, September 2015, paras 3.2 to 3.5
78 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Para 5.8
79 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Para 5.38
80 Q54

65. Economists from whom the Committee has heard have been critical of the surplus target, largely because its design does not properly account for changes to the state of the economy. Jonathan Portes explained that, if growth was below the OBR's forecasts, but above the 1% threshold, then receipts would fall below expectations. In these circumstances, the Government would have to cut spending in order to retain a surplus, something he did not believe would happen:

> What the Chancellor's Charter for Budget Responsibility says is that if […] growth is 1.25% for the next four years […] then we will still hit the surplus and to do that we will make £35 billion-worth of extra spending cuts. That is simply not going to happen. We know it is not. […] So in that sense the surplus target is simply not credible.[81]

66. Philip Booth agreed, arguing that the target was "unworkable" and that "in the handbook of possible fiscal rules the Government is choosing a very, very, very bad one".[82] Michael Saunders, Chief UK economist at Citigroup said that "the cyclical adjustments should be there and done properly" and questioned the wisdom of using a fiscal target that included capital spending.[83] Simon Kirby, Head of Macroeconomic Modelling and Forecasting at the National Institute for Economic and Social Research, said that "the current rule is dramatically inflexible", a statement with which Rob Wood agreed.[84] Paul Johnson agreed that the "rule" was "extremely inflexible" and said:

> I would work with a more flexible rule, which says, supposing I want to get to budget surplus, "Look, world: what I want to do is get to budget surplus at some point within the next five to 10 years, according to how the economy pans out, without being anything like as precise." The difficulty he [the Chancellor] clearly has is that the world wants more precision than that, but I am not sure the precision is worth very much—given the difficulties it might create.[85]

67. **The Chancellor has decided to use the revenue raised from tax increases, and the uncertain gains from the OBR's modelling and forecasting changes, to alleviate reductions in departmental spending, and to reverse planned cuts to tax credits. The OBR forecasts that this can be done while still achieving the target of running an overall budget surplus by 2019/20.**

68. **This target, however, is highly inflexible, making the Chancellor's plans to spend two-thirds of the "windfall" arising from the forecasting and modelling changes all the more uncertain. As Robert Chote said, "sometimes forecasts go in your favour; sometimes they go against". The OBR currently ascribes a 45 per cent probability to the forecasts moving in a way that eliminates the surplus in 2019/20. Were this to occur, the Chancellor would have to raise taxes, cut spending or abandon the "rule".**

69. **If the forecasts were to change in a way that led to an expected deficit in 2019–20, the Treasury may, therefore, need to revisit the departmental settlements agreed as part of the Spending Review. Departments will need to plan for this.**

81 Oral evidence on Summer Budget 2015, HC 315, Q16
82 Oral evidence on Summer Budget 2015, HC 315, Q19
83 Oral evidence on Summer Budget 2015, HC 315, Q22
84 Q235
85 Q238

70. **More generally, the "surplus rule" provides no flexibility to respond to changing economic circumstances. In his speech in Cardiff on 7 January 2016, the Chancellor highlighted the "dangerous cocktail" of risks emanating from abroad, including "stock market falls around the world, the slowdown in China, deep problems in Brazil and Russia" and a dramatic fall in commodity prices. The "rule" leaves the Government unable to use fiscal policy to respond either to such shocks abroad, or to a turn in the economic cycle at home, unless they happen to depress GDP growth below the arbitrary rate of one per cent. The Committee agrees with the economists from whom it has heard and it is not convinced that the "surplus rule" is credible in its current form.**

3 Local authority funding

Changes announced at the Spending Review and Autumn Statement

71. In his speech on the Autumn Statement, the Chancellor announced changes to local government funding, and reforms intended to "spread economic power and wealth through a devolution revolution".[86] These included:

- *A cut to central grant funding to English local authorities.* Continuing the trend established in the last Parliament, the Spending Review announced cuts of 56% in the amount English local authorities receive in central grant funding by 2019–20. Following the introduction of 100 per cent business rates retention, from 2020, the main local government grant will be phased out entirely.

- *Further devolution of business rates revenues.* By 2020, councils will keep all of the growth in their business rates revenue. The system of top-ups and tariffs that redistributes business rates revenues between local authorities will be retained. At an unspecified date, the Autumn Statement also proposes to allow local authorities to set the business rate multiplier at whatever rate they wish. Those authorities with an elected mayor will be able to levy a 2p supplement on council tax to pay for new infrastructure, with the agreement of business members of local enterprise partnerships.

- *More flexibility on council tax.* Councils with social care responsibilities will be able to levy a 2 per cent 'precept' to fund social care expenditure. Police and Crime Commissioners in areas which have historically kept council tax low will be able to raise up to an additional £12 million per year, compared to a 2 per cent annual increase.

- More flexibility for local authorities to spend receipts from asset sales on the revenue costs of "reform projects".

Uncertainty

72. Many of the details of the "devolution revolution" remain uncertain. In particular, the proposals on 100 per cent business rates retention will be the subject of a DCLG consultation. Furthermore, because the revenue from business rates devolution is expected, in aggregate, to exceed the revenue lost from central grants, the Government expects local authorities to assume as yet unspecified responsibilities (examples in the Autumn Statement document include "funding the administration of Housing Benefit for pensioners and Transport for London's capital projects").[87] These will be the subject of a separate consultation in 2016. Paul Johnson said:

> there is a significant amount of uncertainty in local authority budgets. They are going through a period of really significant change.[88]

86 HC Deb, 25 November 2015, Col 1362
87 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, Para 1.240
88 Q248

73. The Chancellor said in his speech on the Autumn Statement that:

> Councils increased their reserves by nearly £10 billion over the last Parliament. We'll encourage them to draw on these reserves as they undertake reforms.[89]

74. Asked by the Committee whether it was wise for local authorities to be drawing down their reserves in the face of such uncertainty over their funding settlement, the Chancellor said:

> If you look at what is going to happen to local government funding, in cash terms, it is going to be the same at the end as the beginning or indeed marginally higher at the end. To help with the transformation of local government services, to help with the efficiencies and the reforms that different councils are undertaking, I am saying that they can draw on their reserves. Of course, it is their decision, but I do not feel that they should feel inhibited from drawing on their reserves by the Treasury.[90]

75. **Given their requirement to run balanced budgets, local authorities maintain reserves partly because they need a contingency to deal with unforeseen developments. The details of plans to localise business rates, and the additional responsibilities that councils may have to assume in return for the associated revenues, are uncertain. In this context, it is to be expected that councils would want to sustain their reserves. The Committee agrees with the Chancellor that it is for local authorities to decide whether to draw down their reserves.**

OBR estimates of impact

76. At each Budget and Autumn Statement, the Treasury publishes a policy decisions table known as the 'scorecard', giving its estimate of how much each announced policy measure will cost or raise. The OBR scrutinises and certifies these policy 'costings', and states publicly whether it agrees or disagrees with the Treasury's figures.

77. The announcements made on council tax, including the new social care 'precept', were not listed on the Treasury 'scorecard', and so the usual costings process was not followed.[91] Instead, the OBR estimated the fiscal impact of new council tax flexibilities independently, and forecast that council tax receipts would be £6.2 billion higher over the coming five years as a consequence of these.[92] Robert Chote described how the OBR made this forecast:

> We had to basically make a judgment about the degree to which local authorities in aggregate, and police authorities on the police side, were going to take advantage of that [flexibility] and, if they did, to what extent it would be spent. In the assumptions that we have made on the social care side, we have assumed that there is about 95% takeup of that opportunity, which might be everybody doing 95% of the new room for manoeuvre or 95% doing all of it.

89 HC Deb, 25 November 2015, Col 1365

90 Q94

91 The scorecard includes only those decisions "with a direct effect on public sector net borrowing" (HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, Para 3.3)

92 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Para 1.8

> […] We have made those judgments on the basis of what we can interpret from the behaviour of local authorities, but it is a judgment, rather than a precise science.[93]

78. Other changes to local government finance planned as part of the Spending Review, most notably the devolution of business rates, were not reflected in the forecast at all. Robert Chote said that this was because the OBR only incorporates "firm policy" into the forecast, and business rates devolution did not meet this definition. Pressed further, he said that that "we explicitly said [to the Treasury], 'Is this a firm policy yet?' and it was not."[94]

79. The Chancellor said in his statement to the House of Commons on 25 November that:

> we will abolish the uniform business rate. By the end of the Parliament, local government will keep all of the revenue from business rates. We will give councils the power to cut rates and make their area more attractive to business and elected mayors will be able to raise rates, provided they are used to fund specific infrastructure projects supported by the local business community.[95]

80. The Autumn Statement document, meanwhile, states that:

> The Spending Review makes the difficult decisions to: significantly reduce the central government grant to local authorities, while introducing a new council tax precept for social care, and undertaking the full devolution of business rates and new responsibilities so local areas have the tools to drive local growth.[96]

81. **The devolution of business rates is clearly intended to form part of a package of measures that collectively comprise the Chancellor's "devolution revolution". However, the OBR only assessed the effects of part of this package because they were told by the Treasury that plans to devolve business rates were not "firm policy". Anybody hearing the Chancellor's speech, or reading the Autumn Statement document, would be surprised to hear this.**

Social care funding

82. Dr Gemma Tetlow, Programme Director at the IFS, explained that the impact of the new 2% social care 'precept' would vary between councils, depending on their council tax base and social care needs:

> Clearly, the implications are very different across different local authorities. Those that raise relatively more from council tax will gain a relatively large amount of money by increasing by 2%. For some authorities, it may represent a very big share of what they might be trying to spend on social care, and might make a big difference to their ability to meet some of those increasing demands. For other areas, that will be much less the case.[97]

93 Q160
94 Q113
95 HC Deb, 25 November 2015, Col 1364
96 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, Para 1.57
97 Q246

83. The IFS has estimated that the social care precept would raise £1.7 billion by 2019–20 if used in full.[98] Separately, the Resolution Foundation has estimated that the national living wage (NLW), which is expected to exceed £9 per hour by 2020, will add £1.4 billion to the cost of publicly-funded social care services.[99] This is in addition to the £1 billion arising from above-inflation increases in the national minimum wage that were expected even before the NLW was announced.

84. Asked whether the social care precept was sufficient to meet funding pressures arising from growing needs and rising wage costs, the Chancellor noted that the Autumn Statement also announced an increase in the Better Care Fund.[100] From 2017, this will make additional funds for social care (rising to £1.5 billion in 2019–20) available to local authorities.[101]

85. **The additional money made available for social care in the Spending Review will compensate for additional costs arising from the introduction of the national living wage, although this will come partly at the cost of higher council tax bills. Certain local authorities with low council tax bases and high needs may face particular funding pressures. The Committee expects the Government to explain how it intends to ensure that all English local authorities have the resources and flexibility to respond to their statutory obligations in social care.**

86. **The Committee notes that the social care precept, which is expected to be used in full by the vast majority of councils, is effectively a hypothecated tax. In previous Parliaments, the Treasury Committee, and the Treasury, have criticised hypothecation of central government taxation, on the grounds that the revenue raised by such taxes rarely reflects the required amount of spending. The same arguments apply at local government level. Unless there is a compelling reason why funding needs should grow in line with the council tax base in each local authority, the social care precept is not a sustainable or equitable way of financing social care in the long term. Moreover, the "referendum lock", which requires council tax increases of two per cent or more to be put to a public vote, may tempt central government to address other funding gaps by giving councils ever more hypothecated precepts.**

Police funding

87. Revenue spending of police forces in England and Wales is funded from two principal sources: a central government grant, and a levy on council tax, known as a precept. In England, annual rises in the police precept of 2 per cent or more require a local referendum.

88. The Chancellor said in his statement to the House of Commons on 25 November that "there will be no cuts in the police budget at all. There will be real terms protection for police funding".[102] The Autumn Statement document commits to a £900 million increase in police funding by 2019–20.[103] Separately, the Autumn Statement offered further flexibility

98 David Phillips, Local government and the nations: a devolution revolution? Institute for Fiscal Studies Autumn Statement briefing, 26 November 2015

99 Resolution Foundation, Care to pay? Meeting the challenge of paying the National Living Wage in social care, 12 November 2015, p5

100 Q88

101 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, Para 1.107

102 HC Deb, 25 November 2015, Col 1373

103 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, Para 1.81

for police forces with the lowest council tax bills to raise income from the precept by up to £5 per household, rather than 2 per cent, allowing them to raise "up to an additional £12 million per year".[104]

89. On 17 December 2015, the Minister for Policing made a written statement to the House of Commons, announcing provisional central government grant allocations to the England and Wales police forces for 2016–17. Compared with the previous year, grants for the 43 territorial police forces in England and Wales were cut by 2.1 per cent in real terms. All but two police forces saw a real terms cut to their central government grant. In the statement, the Policing Minister wrote:

> Direct resource funding […] including precept, will be protected at flat cash levels, assuming that precept income is increased to the maximum amount available.[105]

90. **Although the Chancellor promised "real terms protection for police funding", grant funding in 2016–17 is set to be cut by 2.1 per cent in real terms. Overall, police funding will be protected in cash terms that year only if all police forces decide to increase their precept to the maximum extent possible. The Chancellor did not make it clear in his statement that protection for police funding was contingent on the use of the precept. The Chancellor now needs to explain how much of the £900 million necessary to protect police funding in real terms is expected to come from higher council tax bills.**

104 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, Para 1.82
105 HCWS426, 17 December 2015

4 Housing

Housing market trends and forecasts

91. The annual rate of UK house price inflation has picked up slightly in recent months, reaching 7.7 per cent in the year to November 2015.[106] This was the highest rate recorded since January 2015, though it remains well below peaks reached in the second half of 2014. The OBR expects house prices to grow at a faster rate than incomes throughout the forecast period, rising cumulatively by 28.4 per cent by the first quarter of 2021. Relative to their pre-crisis peaks in 2007, real house prices at the end of the forecast are expected to be 11.2 per cent higher, and the ratio of house prices to average earnings 10.5 per cent higher.[107]

92. The decline in the affordability of home ownership is widely considered to have caused a long-term shift away from owner-occupation and towards renting: the proportion of households renting stands at 37 per cent, its highest rate in over thirty years. The OBR state that they "assume that the growth in private renting will continue". The ONS's index of private housing rental prices, an experimental data series that began in January 2012, indicated that private rents in Great Britain grew by 2.7 per cent in the year to September. This is close to the highest recorded rates of 2.8 per cent, seen during the middle of 2012.

93. In successive meetings, the Financial Policy Committee (FPC) has identified UK property markets as a risk to financial stability. Recently, particular concerns have been raised about the buy-to-let lending sector. The stock of buy-to-let lending increased by 10 per cent in the year to September 2015, compared to growth of 0.4 per cent for lending to owner-occupiers. This growth in buy-to-let lending has, according to the Bank, been driven by greater competition between lenders in the rates they offer and growing risk appetite among investors.[108] The pension reforms introduced in the 2014 Budget may also have boosted the buy-to-let market.[109]

94. The FPC has called for powers of direction over the buy-to-let market since late 2014. Following the Summer Budget, the Chancellor stated in oral evidence and correspondence to the Committee that he would issue a consultation "after the Conference Recess" (i.e. after 12 October 2015) on these additional powers.[110] The consultation document was issued on 17 December 2015.[111]

95. **The Committee agrees with the FPC that it should have powers of direction in relation to buy-to-let mortgage lending. Given the developing risks in this sector, the delays in granting these powers are inexplicable.**

96. **However, wider powers must also be accompanied by higher standards of accountability and transparency. In the FPC's Policy Statement on any new Power of Direction over buy-to-let lending, the Committee would expect to see a detailed explanation the circumstances in which the power might be exercised. It would also**

106 Office for National Statistics, House Price Index - November 2015, 19 January 2016
107 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Para 3.75
108 Bank of England, Financial Stability Report, December 2015, p29-30
109 Bank of England, Financial Stability Report, July 2015, p25-6
110 Written evidence on Summer Budget 2015 inquiry, BUD0006
111 HM Treasury, Open consultation - Financial Policy Committee powers of direction in the buy-to-let market, 17 December 2015

expect to see an analysis of the tools available to the FPC to influence buy-to-let lending and their costs, benefits and distributional impact.

Measures announced in the Summer Budget

97. The Summer Budget announced a range of measures with potential implications for all parts of the housing market. These included changes to inheritance tax, the tax regime for private landlords, and social sector rents.

98. First, the Budget introduced a "family home allowance" to the inheritance tax regime, increasing the tax free allowance by £175,000 from April 2017. Those with assets of £500,000, or £1 million for married couples and civil partners, will now not pay any inheritance tax, providing that their main residence is worth at least £175,000 or £350,000, respectively. Those downsizing to smaller properties will receive an "inheritance tax credit", thereby allowing them to qualify for the new threshold.

99. The OBR said that the change to the inheritance tax regime is:

> likely to increase incentives for the elderly to purchase housing and discourage them from selling their homes as the tax disincentives to hold a property to death have fallen, potentially putting upward pressure on house prices.[112]

100. The IFS was critical of the measure, echoing the OBR's analysis of its impact on house prices:

> it will increase the bias towards buying owner-occupied housing; it will lead to an increase house prices; and it is unfair that smaller estates, with a smaller proportion of assets in property, will have more inheritance tax liability than larger ones.[113]

101. Secondly, the Budget announced a restriction in mortgage interest rate relief to the basic rate for landlords, to be phased in over four years from 2017. The changes mean that, for every £100 of interest expenditure, all landlords will now pay £80 after tax relief, rather than £60 for higher rate taxpayers, or £55 for those paying the additional rate. The Summer Budget also removed the 'wear and tear allowance' that allowed landlords to deduct 10 per cent from their annual rental income before calculating tax due. Paul Johnson was critical of the changes to mortgage interest rate relief, saying that,

> At present if you own a property which you let out to tenants you can set any mortgage interest costs against tax due on rent received. The Budget red book states that this means that "the current tax system supports landlords over and above ordinary homeowners" and that it "puts investing in a rental property at an advantage". This line of argument is plain wrong. Rental property is taxed more heavily than owner occupied property. There is a big problem in the property market making it difficult for young people to buy, and pushing up rents. The problem is a lack of supply. This change will not solve that problem.[114]

112 Office for Budget Responsibility, Economic and Fiscal Outlook – July 2015, Cm 9088, Para 3.84
113 Institute for Fiscal Studies, Summer Budget 2015 briefing: Tax Measures, 9 July 2015
114 Institute for Fiscal Studies, Summer Budget 2015 briefing: Paul Johnson's opening remarks, 9 July 2015

102. Finally, the Summer Budget announced measures relating to social housing, including a cut in social sector rents by one per cent each year for four years. The OBR pointed out that this would reduce social landlords' income thereby reducing "their ability and willingness to invest in housing".[115] The IFS estimated that this measure would reduce rental income on social housing by £2.5 billion a year.[116] At the time, the OBR lowered their forecast for residential investment as a consequence of the measure, predicting that 14,000 fewer new affordable homes will be built in the period until 2021. Using revised assumptions in their November 2015 Economic and Fiscal Outlook, they estimated that the July measures would reduce the number of new affordable homes by 80,000, a reduction of 36 per cent, compared to a situation where social sector rents were allowed to rise in line with inflation.[117]

Measures announced in the Spending Review and Autumn Statement

103. The Chancellor spoke in his statement to the House of Commons on 25 November of "a growing crisis of home ownership in this country".[118] The Autumn Statement set out a "five point plan" for housing "focussed on low cost home ownership" that it describes as "the most ambitious plan since the 1970s to build homes".[119] Measures and commitments made under the plan are discussed below.

Stamp duty surcharge

104. The Autumn Statement announced a stamp duty 'surcharge' of 3 percentage points on houses bought for more than £40,000 and not intended to be the buyer's main home, to apply from April 2016.[120] In his speech, the Chancellor noted that "more and more homes are being bought as buy-to-lets or second homes", adding that "people buying a home to let should not be squeezing out families who can't afford to buy". The consultation document on the design of the surcharge states that it is "part of the government's commitment to supporting home ownership".[121]

105. The economists the Committee heard from did not have a view on what was the "appropriate" level of buy-to-let investment, although they were unanimous in agreeing that the root cause of affordability problems in the housing market was insufficient supply. Rob Wood said that "it seems to me that house prices are going up faster than incomes because we are not building as many of them".[122] Simon Kirby said that lack of supply was one of the "fundamental problems with the UK housing market",[123] and pointed out the importance of having a "well-functioning rental market as well as home ownership".[124] Paul Johnson described the supply of housing as "one of the biggest economic and social

115 Office for Budget Responsibility, Economic and Fiscal Outlook – July 2015, Cm 9088, Para 3.84
116 Institute for Fiscal Studies, Summer Budget 2015 briefing: Benefit Changes and Distributional Analysis, 9 July 2015
117 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Para B.45
118 HC Deb, 25 November 2015, Col 1371
119 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, p3
120 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, p3
121 HM Treasury, Higher rates of Stamp Duty Land Tax (SDLT) on purchases of additional residential properties, 28 December 2015, Section 1.1
122 Q227
123 Q207
124 Q227

issues that we face".[125] He said that "there are lots of things […] that are driving down mobility within the sector and the incentive on owner-occupiers to trade down, and driving up underlying prices and underlying rental prices".[126]

106. Paul Johnson also raised a number of specific concerns about the surcharge, including the fact that corporations with fifteen properties or more would not have to pay it (an exemption that currently forms part of a consultation on the details of the measure). He added that "it must create incentives for attempts at avoidance, whether that is through incorporation […] or pretending that it is not a buy-to-let".[127] He acknowledged that "it is quite difficult for younger people to get into the housing market", but questioned whether the surcharge was an appropriate policy response.

> First of all, you need to decide whether the problem is that buy-to-let or renting is more tax-favoured than owner-occupation. It is pretty hard to make that case, because it is not. Is there a different set of problems associated with intergenerational equity or, as you were talking about before, more money coming in from abroad, or what have you? If you think that is the problem, it is probably better to do something like have a recurrent tax on ownership, rather than a tax on transactions, so increasing the council tax on the owner or something like that—if you think there is a tax problem in the first place.[128]

107. In written evidence, the Chartered Institute of Taxation highlighted the "fragmented way in which [recent] taxation changes" in the private rental sector had been introduced, and commented that, from the perspective of individual and trust landlords, "the principles of fairness, certainty, stability, practicality and coherence had all been overlooked".[129] In their written evidence, the Institute for Chartered Accountants in England and Wales (ICAEW) stated that it was "concerned about the fairness" of the surcharge and that it could be "difficult to apply in practice". ICAEW also raised concerns about lack of stability in the buy-to-let market, and the disparities in property transaction taxes developing between Scotland and the rest of the UK.[130]

108. Asked about the impact of the surcharge on the housing market, Paul Johnson said that "for those who end up in the rental sector, it can only push the rent one way, and that is up".[131] In its response to the Government's consultation on the design of the surcharge, the Council of Mortgage Lenders noted that "turnover of the UK housing stock is already only half the level of a generation ago", and argued that the surcharge "runs the risk of further undermining market liquidity". It also stated that "in pressured urban areas, such as London and the South East, the cost would be passed on by landlords via higher rental charges".[132] In its response to the Autumn Statement, the Royal Institute for Chartered Surveyors wrote that "we are concerned by the implications [of the surcharge] for privately rented accommodation at a time when we have a deficit across all tenures", adding that

125 Q280
126 Q279
127 Q251
128 Q256
129 See Appendix to this Report
130 See Appendix to this Report
131 Q279
132 Council of Mortgage Lenders, Submission to HM Treasury, 29 January 2016

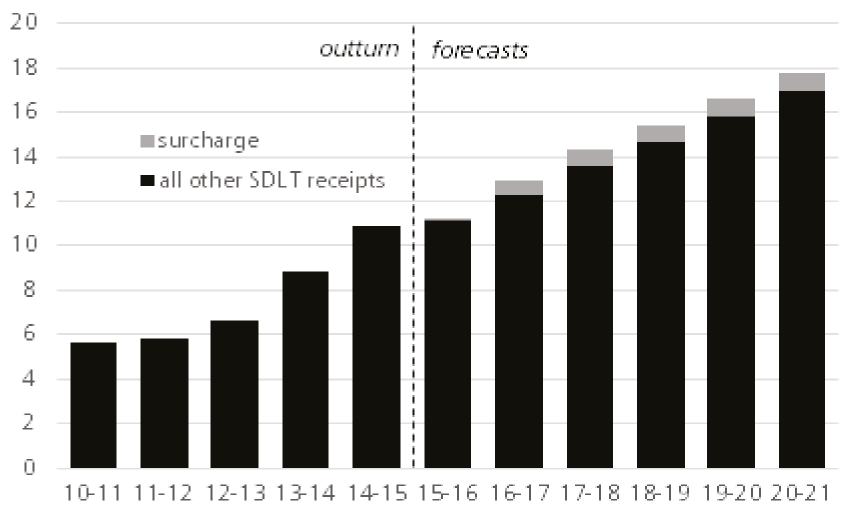
"such an inflationary measure will discourage small landlords and reduce the rental supply–prices will inevitably rise". [133]

109. The OBR forecasts that the surcharge will increase public sector receipts by £3.8 billion over the forecast period, making it the second largest tax raising policy measure in the Autumn Statement.[134] It ascribes a "high" uncertainty rating to this costing, however, partly because data on the number of transactions that involve the purchase of second homes is poor, and partly because of "possible behavioural effects". These include the fact that "the measure requires purchasers to declare that the dwelling they are acquiring will not be their primary residence–i.e. effectively to opt in to the higher SDLT charge".[135] The OBR also altered their forecast for residential property transactions in response to the measure, by three per cent in the first year of the forecast, and by two per cent thereafter (amounting to a total of around 115,000 fewer transactions over the forecast period).[136] In evidence to the Committee, Mr Parker cautioned that the potential effects were "very uncertain".[137]

110. Chart 4 shows the OBR's forecasts for stamp duty land tax receipts, and the amount accounted for by the surcharge. By 2020–21, receipts from stamp duty are expected to reach £17.8 billion, over three times higher than in 2010–11.

Chart 4: stamp duty land tax (SDLT) receipts

England, Wales and N Ireland; Outturn 2010–11 to 2014–15 and OBR forecasts 2015–16 to 2020–21, £ billion



Sources: HMRC, Disaggregation of HMRC tax receipts, 1 October 2015; Office for Budget Responsibility, Economic and Fiscal Outlook–November 2015, Cm 9153

As a tax on transactions, the Mirrlees Review of the tax system concluded that stamp duties generally were "unattractive from an economic point of view". In relation to stamp duty on residential property transactions, it went on:

133 Royal Institute of Chartered Surveyors, Autumn Statement 2015 – full response, 26 November 2015
134 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Table A.1
135 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Para A.9
136 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Supplementary Economy Table 1.16
137 Q132

> Houses vary considerably in the number of times they are traded, but there is no good economic argument for taxing more-frequently-traded housing more. Worse still, a tax on transactions reduces the incentive to trade in housing and leads to less efficient usage of the housing stock. […] It creates a disincentive for people to move house, thereby leading to potential inflexibilities in the labour market and encouraging people to live in properties of a size and in a location that they may well not otherwise have chosen.[138]

It concluded that "there is no sound case" stamp duty on property transactions and that it should be abolished.

111. The Royal Institute of Chartered Surveyors' Residential Market Survey indicated an increase in housing demand following the Autumn Statement. It attributed this to buy-to-let investors rushing to complete transactions before the surcharge enters effect in April.[139] The situation was compared by Peter Spencer, Professor of Economics and Finance at York University, to the decision in the 1988 Budget to abolish multiple mortgage tax relief, which had allowed unmarried couples to "pool" their allowances. The delay between announcement and implementation of the policy led to "a market-distorting rush to secure sales". Professor Spencer said that the surcharge "similarly guarantees a bunfight in the first quarter followed by a relapse over the rest of the year".[140]

"400,000 new homes"

112. The plan makes a commitment to "deliver 400,000 affordable housing starts by 2020–21". This is being achieved partly through plans to build 135,000 new shared ownership homes, and 10,000 new 'build-to-rent' homes (which allows housing associations to charge higher rents, with the expectation that dwellings will be sold at a later date).[141] This is being financed through substantial changes to the composition of central government grants to housing associations. Fewer grants will be earmarked for the social rented sector, while new grants are introduced to allow the construction of the "build to rent" homes, and grants for dwellings to be sold via shared-ownership are substantially increased.[142] Shared-ownership grants will also be made available for the private sector. Taken together, the OBR expects these measures to result in just 46,000 more housing association new builds over the next five years. Combined with the cuts to social rents made in the Summer Budget, the OBR forecasts that the number of new affordable homes will be 34,000 lower than otherwise.[143] It also notes that "rents under build-to-rent and shared-ownership will be higher than in the social sector".[144]

113. The Autumn Statement also announced 200,000 new Starter Homes, reiterating a pledge made in the Conservative Party manifesto,[145] and repeated regularly by the Minister for Housing and Planning since the election.[146] These homes are intended for younger first time buyers, and are to be sold at a 20% discount. £2.3 billion is being made available to

138 Mirrlees, J et al (2011), Tax by design, p151-2 and p403-4

139 Royal Institute of Chartered Surveyors, Press release - Increase in housing demand as buy-to-let investors look to beat stamp duty rise, 21 January 2016

140 Financial Times, Buy-to-let landlords rush to beat UK stamp duty surcharge, 21 January 2016

141 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, Para 1.146

142 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Table B.4

143 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Para B.47

144 Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015, Cm 9153, Para B.40

145 The Conservative Party Manifesto 2015, p3

146 See, for instance, Answer to Written Question 4885, 7 July 2015

"support the delivery" of 60,000 of them.[147] Under a separate "point" of the housing plan, other subsidies for owner occupation are announced, including an extension of the Help to Buy: Equity Loan scheme to 2021.[148] In its response to the Autumn Statement, RICS wrote that the Government was "essentially subsidising one sector of the housing market [owner occupation] over all others".[149]

114. Evidence from RICS also points to a growing skills shortage in the construction sector. The percentage of companies reporting skills shortages in its Q4 2015 Construction Market Survey was at its highest level on record (since 1998), with bricklayers and quantity surveyors in particularly short supply.[150]

Extension of Right to Buy

115. The Autumn Statement makes plans for further subsidies for prospective owner-occupiers through the extension of the Right to Buy scheme to Housing Association tenants. A pilot scheme will be launched with five Housing Associations, which will inform the design of the final scheme, intended to extend the Right to Buy to 1.3 million Housing Association tenants.[151]

Planning and release of public sector land

116. The Autumn Statement also announced a series of other measures intended to "accelerate housing supply and get more homes built".[152] These include further reforms to the planning system, building on planning measures announced in the 2011 and 2012 Budgets, and the 2011, 2012, 2013 and 2014 Autumn Statements. Plans were also made in the 2015 Autumn Statement to "release public sector land with capacity for 160,000 homes": such measures also featured in the 2011 and 2014 Autumn Statements, although the 2015 Statement notes that the latest plans represent "a more than 50 per cent increase on the government's record in the last parliament". In January 2016, the Department for Communities and Local Government carried out an analysis of the number of homes built on a sample of 100 of the 942 formerly public sector sites that were sold between 2011 and 2015. It found that 200 homes had been built, and work had been started on a further 2,400.[153]

117. **The Chancellor's characterisation of problems in the housing market as a "home ownership crisis" is reflected in the policies of the Summer Budget and Autumn Statement, which are likely to reduce the supply of properties to let at both social and market rates, while continuing to subsidise demand for owner-occupation, including through outright discounts on the market value of homes.**

118. **While they clearly stimulate demand for owner-occupied housing, it is far less clear, despite the promises to the contrary, that the measures contained in the Summer**

147 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, Para 1.146 (Point 1)
148 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, Para 1.146 (Point 4)
149 Royal Institute of Chartered Surveyors, Autumn Statement 2015: implications for housing, infrastructure and construction, 25 November 2015
150 Royal Institute of Chartered Surveyors, UK Construction Market Survey Q4 2015
151 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, Para 1.146 (Point 2)
152 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, Para 1.146 (Point 3)
153 Department for Communities and Local Government, written evidence to Public Accounts Committee inquiry into Disposal of public land for new homes, DPL0001, 25 January 2016

Budget and Autumn Statement will materially increase the supply of homes. This is likely to lead to a rise in house prices, sharply curtailing any overall increase in owner-occupation. Changes to housing association grants to meet a commitment to provide 135,000 shared ownership homes will alter the tenure of dwellings being built by housing associations, but not the overall number. In any case, the Government has allocated money to subsidise the purchase of only 60,000 of a planned 200,000 Starter Homes.

119. **Attempts to stimulate housing supply through planning reforms and the release of public sector land have been a recurrent feature of past fiscal events, including the 2011 and 2012 Budget, the 2011, 2012, 2013 and 2014 Autumn Statements, and the Summer Budget: none has yet convincingly redressed the failure of successive Governments to create the conditions necessary for housing supply to meet demand. Even in the absence of planning and land constraints, severe skills shortages in the construction sector, reinforced by attempts to limit migration, are likely to impede housing supply growth in the medium-term.**

120. **Stamp duty on residential property transactions is an inefficient tax. As the Mirrlees Review and most experts agree, it causes distortions in both the housing and labour markets. The Government has increased its dependence on stamp duty as a source of revenue and will continue to do so over the next five years. This is inconsistent with the Mirrlees Review and evidence that the Committee has taken in recent years. The case for a reconsideration of the system of property taxation in the UK is therefore all the stronger.**

121. **There is evidence from the Royal Institute of Chartered Surveyors that the announcement of the stamp duty surcharge has led to short-term distortions in the housing market, as prospective buy-to-letters rush into the market before it takes effect. Once in force, the surcharge is likely to give rise to further perverse incentives, including for landlords to place residential properties under a corporate umbrella.**

122. **The stamp duty surcharge is likely to reduce the supply of privately rented properties, and hence result in higher rents. Were it not to do so, it could not be claimed to support home ownership. Combined with other measures in the Summer Budget and Autumn Statement, particularly the reduction in tax reliefs available on mortgage interest payments, the profitability of buy-to-let investments will be sharply reduced. The uncertainty about how far the Government is prepared to go to discourage buy-to-let may act as a further deterrent to investment in this sector, and with it, act as an enduring constraint on the supply of privately rented properties.**

123. **Were the measures taken to curb buy-to-let to have a substantial effect, they would come at a cost to the wider economy. Access to a well-functioning, affordable housing market, including for private rented properties, has been widely recognised to be crucial to labour mobility, and hence the overall efficiency of the labour market. Labour, Conservative and Coalition governments have for decades recognised the crucial importance of maintaining confidence in the buy-to-let sector, perhaps aware of the damaging, unintended consequences of the heavy-handed regulatory interventions by both Labour and Conservative governments of the 1950s and 60s. Any impediment to labour mobility will reduce employment, economic activity, and the economy's long-run productive potential.**

124. **The Committee is concerned about the focus of the Government's housing policy. Addressing the "home ownership crisis" must not come at the expense of a shortage of homes to rent. The Chancellor should make clear what he intends to do to help those who want or need to rent, and to ensure a healthy supply of properties in the private rented sector.**

5 Assessment of tax measures

Assessment of Fiscal Events

125. Following the practice of the previous Treasury Committee, we asked the Institute of Chartered Accountants in England and Wales (ICAEW), the Chartered Institute of Taxation (CIOT) and the Association of Chartered and Certified Accountants (ACCA) for their overall assessments of the tax measures in the Autumn Statement when measured against the principles that tax policy should be fair; support growth and encourage competition; provide certainty; provide stability; be practicable; and provide for a coherent tax system.

126. We are grateful for their submissions, which have been published as an appendix to this Report. In summary, the submissions noted that the Autumn Statement was relatively light on tax measures and that it was broadly neutral with regard to the principles of tax policy (CIOT marked it at six out of ten and ICAEW scored five of the measures as "amber", two as "red" and one as "green").[154] Their specific concerns, particularly over the Apprenticeship Levy and the proposals for Making Tax Digital, are noted elsewhere in this report.

127. We propose to use this approach to assess future fiscal events against the principles of tax policy, starting with the March 2016 Budget (including the draft 2016 Finance Bill clauses which were published on 9 December).

Conclusion

128. **The tax measures in the Autumn Statement are relatively few in number, but based upon the assessments of the three expert groups from which the Committee received written evidence—ICAEW, CIOT and ACCA—they largely fail to comply with the principles of tax policy established by the Committee in the last Parliament: namely, that tax policy should be fair, certain (legally clear, targeted and simple), stable, practical and coherent, and that it should support growth and competitiveness. The Committee will return to this issue in more detail as part of its inquiry into tax policy and the tax base.**

154 Under ICAEW's "traffic light assessment" a measure scored green is a "pass" on the principles; a measure scored amber is "neutral"; and a measure scored red is a "fail".

Conclusions

Chapter 1: Introduction

1. In conducting its inquiries into the Budget and Autumn Statement, it is more useful for the Committee to hear from the Chancellor towards the end of the evidence-taking process. This is so that evidence heard from relevant experts can be brought to bear on his questioning. On this occasion, the Committee agreed to change the order of evidence-taking to satisfy exceptional diary commitments of the Chancellor. It does not expect to have to do so again. (Paragraph 3)

Chapter 2: Public finances

2. The Committee was surprised by the OBR's interpretation of the Bank's May 2014 guidance. That guidance stated that assets purchased under quantitative easing would not be sold until interest rates reached a level from which they "could be cut materially". Such a rate might reasonably have been thought to be higher than the OBR's assumption of 0.75 per cent. The OBR should in future share its assumptions on the future path of monetary policy with the Bank in advance of publishing its forecast, and discuss formally whether these are a reasonable reflection of the guidance issued by the MPC. (Paragraph 8)

Modelling corrections and changes

3. The OBR is right to review the models it uses, to seek improvements, and to be frank about mistakes made. Given their potential to alter materially the outlook for the public finances, these changes, improvements and corrections should be done well in advance of fiscal events, and their likely impact made clear at that point. This would help to avoid the mistaken impression that the OBR was fixing its forecasts to suit the Government. (Paragraph 12)

A £27 billion "windfall"?

4. The improvements to the fiscal forecast were driven not by a fundamentally better economic outlook, as the Chancellor suggested, but by changes to the OBR's modelling and assumptions. The OBR has altered its models and assumptions in a way that is favourable to the public finances on this occasion. It may subsequently alter them in an unfavourable way. Moreover, the focus on the £27 billion cumulative change over the five year forecast period distracts attention from the fact that the annual improvements were small, and certainly of a scale that could be revised away in the future. What was widely interpreted as a "windfall" may well prove illusory. (Paragraph 16)

Changes to taxation

5. The tax-burden, which was 33.0 per cent of GDP in 2014–15, will rise to 34.2 per cent by 2017–18. The Chancellor's objective of moving to a "lower tax society" was not advanced by the measures contained in either the Summer Budget or the Autumn

Statement. These will raise the tax burden faced by individuals and businesses, through new taxes, including the apprenticeship levy and the stamp duty surcharge, and the raising of less salient ones, including dividends and insurance premium taxes. (Paragraph 26)

6. The need to raise further tax revenues is understandable, given the imperative to reduce public borrowing. The "tax lock", which prevents rises in national insurance, income tax and VAT, appears to be leading the Treasury to find additional revenues in less conventional ways. (Paragraph 27)

Making tax digital

7. Increased digital interaction with HMRC by taxpayers may carry benefits, provided it reduces the administrative burden on them without affecting the amount of revenue collected. (Paragraph 30)

8. However, some elements of HMRC's Making Tax Digital plans, most notably the quarterly reporting requirement for all businesses, may create additional burdens for taxpayers. HMRC's discussion paper implies that it could even require them to pay tax before it is legally due. It is premature to make the case for these plans on the grounds of simplicity and convenience for taxpayers. The main benefits appear to arise largely from additional revenue to the Exchequer, partly at the expense of cash flow to businesses where they need to pay their tax earlier, and partly as a result of a reduction in errors. Much more consultation over the detail is required before this policy is implemented. Legitimate concerns of businesses about the burden that may be caused by this policy need to be addressed by HMRC and the Treasury. (Paragraph 31)

Compliance with the 'welfare cap'

9. The decision to reverse planned changes to tax credits has caused the Government to breach its welfare cap in each of the first three years of the forecast period. The Government are meeting the cap in the final two years of the forecast because the OBR agreed to certify the change to the funding of local authority temporary accommodation as an expenditure-cutting policy decision, rather than a fiscally neutral classification change. It is not clear that this measure will materially reduce welfare expenditure. The OBR should explain, in full, why it has certified this as a policy change. The OBR should also explain whether it believes the welfare cap to be vulnerable to 'gaming' by the Treasury, given the lack of clarity about what constitutes a policy measure, as opposed to a classification change. (Paragraph 41)

Ringfenced expenditure

10. The press release accompanying the Spending Review stated that it "sets out how £4 trillion of government money will be allocated over the next five years". In fact, three-quarters of departmental expenditure and three-fifths of welfare spending was already locked in before the Spending Review process had even begun, by political commitments to protect certain areas of spending, and by block grants to devolved administrations, which are governed by the Barnett formula. (Paragraph 55)

11. The proportion of spending that is ringfenced by commitments on the NHS, defence, international development, schools and pensioner benefits will continue to increase over the course of the Parliament, dramatically altering the shape of spending, and with it, the role of the state. The Committee agrees with the Chancellor that this ringfence is an "expression of… political priorities". But these priorities should at least have been subject to discussion and fuller explanation in the Spending Review. Even if the Government's spending priorities were left unaltered, the implications of maintaining protections for certain areas of spending could have been brought into clearer focus and the scrutiny of spending decisions in these areas improved. (Paragraph 56)

Balance of fiscal consolidation

12. Compared to plans made in March, the Chancellor has used the July Budget and the Autumn Statement to rebalance the planned fiscal consolidation away from spending cuts and towards tax rises. In responding to this report, the Treasury should explain whether, in pursuing further fiscal consolidation, it is continuing with the policy of an 80:20 split between spending cuts and tax rises. (Paragraph 58)

Fiscal risks and the "fiscal surplus rule"

13. The Chancellor has decided to use the revenue raised from tax increases, and the uncertain gains from the OBR's modelling and forecasting changes, to alleviate reductions in departmental spending, and to reverse planned cuts to tax credits. The OBR forecasts that this can be done while still achieving the target of running an overall budget surplus by 2019/20. (Paragraph 67)

14. This target, however, is highly inflexible, making the Chancellor's plans to spend two-thirds of the "windfall" arising fr.om the forecasting and modelling changes all the more uncertain. As Robert Chote said, "sometimes forecasts go in your favour; sometimes they go against". The OBR currently ascribes a 45 per cent probability to the forecasts moving in a way that eliminates the surplus in 2019/20. Were this to occur, the Chancellor would have to raise taxes, cut spending or abandon the "rule". (Paragraph 68)

15. If the forecasts were to change in a way that led to an expected deficit in 2019–20, the Treasury may, therefore, need to revisit the departmental settlements agreed as part of the Spending Review. Departments will need to plan for this. (Paragraph 69)

16. More generally, the "surplus rule" provides no flexibility to respond to changing economic circumstances. In his speech in Cardiff on 7 January 2016, the Chancellor highlighted the "dangerous cocktail" of risks emanating from abroad, including "stock market falls around the world, the slowdown in China, deep problems in Brazil and Russia" and a dramatic fall in commodity prices. The "rule" leaves the Government unable to use fiscal policy to respond either to such shocks abroad, or to a turn in the economic cycle at home, unless they happen to depress GDP growth below the arbitrary rate of one per cent. The Committee agrees with the economists from whom it has heard and it is not convinced that the "surplus rule" is credible in its current form. (Paragraph 70)

Chapter 3: Local authority funding

17. Given their requirement to run balanced budgets, local authorities maintain reserves partly because they need a contingency to deal with unforeseen developments. The details of plans to localise business rates, and the additional responsibilities that councils may have to assume in return for the associated revenues, are uncertain. In this context, it is to be expected that councils would want to sustain their reserves. The Committee agrees with the Chancellor that it is for local authorities to decide whether to draw down their reserves. (Paragraph 75)

18. The devolution of business rates is clearly intended to form part of a package of measures that collectively comprise the Chancellor's "devolution revolution". However, the OBR only assessed the effects of part of this package because they were told by the Treasury that plans to devolve business rates were not "firm policy". Anybody hearing the Chancellor's speech, or reading the Autumn Statement document, would be surprised to hear this. (Paragraph 81)

Social care funding

19. The additional money made available for social care in the Spending Review will compensate for additional costs arising from the introduction of the national living wage, although this will come partly at the cost of higher council tax bills. Certain local authorities with low council tax bases and high needs may face particular funding pressures. The Committee expects the Government to explain how it intends to ensure that all English local authorities have the resources and flexibility to respond to their statutory obligations in social care. (Paragraph 85)

20. The Committee notes that the social care precept, which is expected to be used in full by the vast majority of councils, is effectively a hypothecated tax. In previous Parliaments, the Treasury Committee, and the Treasury, have criticised hypothecation of central government taxation, on the grounds that the revenue raised by such taxes rarely reflects the required amount of spending. The same arguments apply at local government level. Unless there is a compelling reason why funding needs should grow in line with the council tax base in each local authority, the social care precept is not a sustainable or equitable way of financing social care in the long term. Moreover, the "referendum lock", which requires council tax increases of two per cent or more to be put to a public vote, may tempt central government to address other funding gaps by giving councils ever more hypothecated precepts. (Paragraph 86)

Police funding

21. Although the Chancellor promised "real terms protection for police funding", grant funding in 2016–17 is set to be cut by 2.1 per cent in real terms. Overall, police funding will be protected in cash terms that year only if all police forces decide to increase their precept to the maximum extent possible. The Chancellor did not make it clear in his statement that protection for police funding was contingent on the use of the precept. The Chancellor now needs to explain how much of the £900

million necessary to protect police funding in real terms is expected to come from higher council tax bills. (Paragraph 90)

Chapter 4: Housing

22. The Committee agrees with the FPC that it should have powers of direction in relation to buy-to-let mortgage lending. Given the developing risks in this sector, the delays in granting these powers are inexplicable. (Paragraph 95)

23. However, wider powers must also be accompanied by higher standards of accountability and transparency. In the FPC's Policy Statement on any new Power of Direction over buy-to-let lending, the Committee would expect to see a detailed explanation the circumstances in which the power might be exercised. It would also expect to see an analysis of the tools available to the FPC to influence buy-to-let lending and their costs, benefits and distributional impact. (Paragraph 96)

Planning and release of public sector land

24. The Chancellor's characterisation of problems in the housing market as a "home ownership crisis" is reflected in the policies of the Summer Budget and Autumn Statement, which are likely to reduce the supply of properties to let at both social and market rates, while continuing to subsidise demand for owner-occupation, including through outright discounts on the market value of homes. (Paragraph 117)

25. While they clearly stimulate demand for owner-occupied housing, it is far less clear, despite the promises to the contrary, that the measures contained in the Summer Budget and Autumn Statement will materially increase the supply of homes. This is likely to lead to a rise in house prices, sharply curtailing any overall increase in owner-occupation. Changes to housing association grants to meet a commitment to provide 135,000 shared ownership homes will alter the tenure of dwellings being built by housing associations, but not the overall number. In any case, the Government has allocated money to subsidise the purchase of only 60,000 of a planned 200,000 Starter Homes. (Paragraph 118)

26. Attempts to stimulate housing supply through planning reforms and the release of public sector land have been a recurrent feature of past fiscal events, including the 2011 and 2012 Budget, the 2011, 2012, 2013 and 2014 Autumn Statements, and the Summer Budget: none has yet convincingly redressed the failure of successive Governments to create the conditions necessary for housing supply to meet demand. Even in the absence of planning and land constraints, severe skills shortages in the construction sector, reinforced by attempts to limit migration, are likely to impede housing supply growth in the medium-term. (Paragraph 119)

27. Stamp duty on residential property transactions is an inefficient tax. As the Mirrlees Review and most experts agree, it causes distortions in both the housing and labour markets. The Government has increased its dependence on stamp duty as a source of revenue and will continue to do so over the next five years. This is inconsistent with the Mirrlees Review and evidence that the Committee has taken in recent

years. The case for a reconsideration of the system of property taxation in the UK is therefore all the stronger. (Paragraph 120)

28. There is evidence from the Royal Institute of Chartered Surveyors that the announcement of the stamp duty surcharge has led to short-term distortions in the housing market, as prospective buy-to-letters rush into the market before it takes effect. Once in force, the surcharge is likely to give rise to further perverse incentives, including for landlords to place residential properties under a corporate umbrella. (Paragraph 121)

29. The stamp duty surcharge is likely to reduce the supply of privately rented properties, and hence result in higher rents. Were it not to do so, it could not be claimed to support home ownership. Combined with other measures in the Summer Budget and Autumn Statement, particularly the reduction in tax reliefs available on mortgage interest payments, the profitability of buy-to-let investments will be sharply reduced. The uncertainty about how far the Government is prepared to go to discourage buy-to-let may act as a further deterrent to investment in this sector, and with it, act as an enduring constraint on the supply of privately rented properties. (Paragraph 122)

30. Were the measures taken to curb buy-to-let to have a substantial effect, they would come at a cost to the wider economy. Access to a well-functioning, affordable housing market, including for private rented properties, has been widely recognised to be crucial to labour mobility, and hence the overall efficiency of the labour market. Labour, Conservative and Coalition governments have for decades recognised the crucial importance of maintaining confidence in the buy-to-let sector, perhaps aware of the damaging, unintended consequences of the heavy-handed regulatory interventions by both Labour and Conservative governments of the 1950s and 60s. Any impediment to labour mobility will reduce employment, economic activity, and the economy's long-run productive potential. (Paragraph 123)

31. The Committee is concerned about the focus of the Government's housing policy. Addressing the "home ownership crisis" must not come at the expense of a shortage of homes to rent. The Chancellor should make clear what he intends to do to help those who want or need to rent, and to ensure a healthy supply of properties in the private rented sector. (Paragraph 124)

Conclusion

32. The tax measures in the Autumn Statement are relatively few in number, but based upon the assessments of the three expert groups from which the Committee received written evidence—ICAEW, CIOT and ACCA—they largely fail to comply with the principles of tax policy established by the Committee in the last Parliament: namely, that tax policy should be fair, certain (legally clear, targeted and simple), stable, practical and coherent, and that it should support growth and competitiveness. The Committee will return to this issue in more detail as part of its inquiry into tax policy and the tax base. (Paragraph 128)

Appendix: Evidence from the Association of Chartered and Certified Accountants, the Chartered Institute of Taxation and the Institute of Chartered Accountants in England and Wales

ACCA

December 2015 memorandum on the fundamental principles of tax policy and Autumn Statement 2015

About ACCA

ACCA is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management.

ACCA has 178,000 members and 455,000 students in 181 countries, with approximately 75,000 members and over 70,000 students in the UK, and works to help them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of 92 offices and centres and more than 7,110 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas, including: taxation (business and personal); small business; pensions; education; and corporate governance and corporate social responsibility.

Comments on the Autumn Statement 2015

1) In March 2011, the Treasury Committee set out six principles by which it recommended tax policy should be measured. This memorandum seeks to comment at a high level on the extent to which the proposals in the 2015 Autumn Statement coincide with those principles.

2) The Principles are in summary that tax policy should:

(1) be fair.

(2) support growth and encourage competition.

(3) provide certainty.

(4) provide stability.

(5) Tax policy should be practicable.

(6) Finally, the tax system as a whole must be coherent.

3) As the Committee has observed, while principles can be separate into "basic" and "procedural" types, in practice there is considerable overlap between them, and tax policy needs to follow all the principles to be "good" policy. Although there are comparatively few tax measures in the current Blue Book, they make up in magnitude what they lack in number.

4) There is a tension between stability and improvement, which will require some change and instability. In particular, the pursuit of coherence in the operation of the UK system, which is notorious for its complexity, risks contravening all five of the other principles if it is pursued too far, too fast.

5) The context of this Statement has perhaps informed the content on a fiscal front more than might usually be the case. Indications of possible radical reforms to micro company taxation and the treatment of travel and subsistence expenses for micro businesses proved inaccurate, and revisions to financial forecasts allowed the Chancellor to significantly revise proposals for tax credits.

6) The proposals for "Ensuring a fair contribution through the tax system" at paragraphs 1.150 to 1.154 of the Blue Book deal with specific anti-avoidance and targeting issues. While the effectiveness of additional penalties for the GAAR regime will remain to be demonstrated, the proposals in general are clearly targeted and deal with recognised issues. It is notable that the "deep in the money options" actions follow on a lengthy HMRC investigation into the area, indicating a measured approach to dealing with perceived issues.

7) The introduction of the apprenticeship levy, the aims of which are in line with the principle of supporting growth and encouraging competition, does however raise concerns that it might actually depress wages, with a knock on impact on economic activity more broadly, allied to concerns that the levy may not actually drive up availability of quality apprenticeships. Viewed as equivalent to a payroll tax, the impact is likely to be passed on to employees.

8) The decision to base the threshold on payroll size does have implications for practicality, as it will be easier to identify whether a given payroll has, or should have, operated the levy. The 'traditional' large business test of 250 employees, or turnover and balance sheet measures, might not be so easily integrated into the payroll process.

9) However, the level of the threshold, set at payrolls of £3m and over, has raised concerns that it could have a disproportionately negative impact upon comparatively small businesses who fall just beyond the threshold. Funding apprenticeships is a positive move, but doing so via a mechanism which operates as a payroll tax is less welcome.

10) HMRC's spending contribution to the fiscal consolidation remains a concern to ACCA. The significant budgetary allocations for revision of compliance systems will create for the foreseeable future a multi-layered tax system, in which the very largest businesses operate on their existing financial accounts based cycle, the very smallest businesses and individual self-assessment taxpayers remain in their current annual return arrangements,

while businesses and taxpayers of all types and sizes in between migrate to newly created digital systems and processes.

11) Notwithstanding the significant capital investment in IT, discussed in more detail below, it remains unclear how successful HMRC can be in improving service levels at a time of significant process change while reducing headcount.

12) Stability in the tax system depends not just upon a stable legislative base, but also upon an experienced and effective staff. The proposed reductions in headcount at HMRC are a concern. The fundamental primary legislation underlying the charge to tax in the UK will need to be rewritten, alongside the interactions of the annual reliefs and charges, alongside the development of the new reporting forms and processes and their implementation through digital processes.

13) It is these proposals for Making Tax Digital ("MTD"), and the associated £1.3bn investment in HMRC systems changes, which are the most significant tax announcement of the Blue Book. There are three principle aspects to the tax system – the legislation that imposes the charge, the forms and mechanisms that enable assessment and communication of the charge, and finally the payment processes that facilitate collection of the charge – and MTD will affect all three.

14) As the Select Committee concerned with examining the expenditure, administration and policy of HMRC (and HM Treasury), the Committee will equally have a threefold interest in the proposals for MTD. While the aims of MTD are clearly in line with the Committee's six principles of tax policy, implementation of any change so radical will inevitably be faced with pitfalls.

15) The Committee's role is doubly important as HMRC is a non-ministerial department. While it is right that the administration of taxes be to at least some extent insulated from short term party political considerations, it is vital that appropriate oversight is exercised over HMRC policy decisions, especially where they will have a significant impact upon the shape of the underlying primary tax legislation.

16) ACCA has engaged with HM Treasury and HMRC from an early stage on the Making Tax Digital proposals, and we have significant concerns that the transition to quarterly reporting, and potentially payment, of taxes will create difficulties for many sectors, transactions and tax rules.

17) The charge to tax in the UK currently attaches on an annual basis, whether by reference to basis periods or simply for the fiscal year (as in the case of chargeable gains accruing to individuals). In both cases there is a clearly defined period of time to which the tax charge attaches, and results are compiled once the period is over.

18) While it is clear that advances in technology have improved the opportunities to communicate information to HMRC, and full advantage should be taken of the benefits of that improved communication, the tax system is about more than reporting income. The majority of allowances and reliefs within the UK system operate on an annual basis.

19) The Annual Investment Allowance is a case in point. Currently, a small business can accrue profits throughout the year, knowing that the purchase of a capital asset in the final quarter will benefit from the full year's allowance. However quick a repayment of overpaid

tax may be, it is unlikely to help in funding the purchase of the asset which creates that overpayment. While measures can certainly be designed into the system to accommodate planned expenditure, the design and operation would need careful consideration.

20) Quarterly reporting will work only if the HMRC systems have all the information that is relevant to the tax charge, and nothing but the information that is relevant to the tax charge. If anything is missing, or anything spurious present, then any tax charge as calculated will inevitably be wrong, regardless of basis periods. While that may be dealt with automatically where business accounting software is involved, for the smallest businesses who do not operate a separate bank account, considerable taxpayer education is likely to be needed before relevant transactions can be reliably and accurately recorded on a regular basis.

21) In particular, many of the adjustment currently made, or confirmed, at year-end, such as disallowances for capital expenditure or client entertaining, will need to be correctly identified at the time they are made. The development of software or processes to effectively assist with such processes is likely to be challenging.

22) Since the current annual charges and bases cannot be accurately calculated until the end of the annual period (since significant transactions in the last day or two will affect the entire periods results), for the proposed reporting timetable to be of any value to taxpayers, the accrual of tax liabilities would likewise have to be moved from an annual to a quarterly basis.

23) The proposals will require major technological changes for HMRC and taxpayers which will prove challenging for both sides. ACCA is concerned that the HMRC research paper cited in support of the proposals https://www.gov.uk/government/publications/understanding-the-impact-of-reporting-cycles may give an unhelpful picture of readiness for quarterly reporting. The number of respondents was just 40 (out of a pool of c5m businesses potentially affected) spread across the whole SME range from sole traders to 200 employee businesses. It is not clear that the paper's methodology was directed at establishing the feasibility of quarterly reporting; rather, it appears to have been designed to assess perceptions of such the process, and how to change them.

24) While the MTD proposals may well go with the grain of small businesses' adoption of technological change, that adoption is slow and has for the most part been voluntary. Although HMRC have imposed digital filing in some areas, they have been (successfully) challenged by a number of taxpayers where the convenience to the state was outweighed by the imposition on otherwise compliant taxpayers.

25) Because the criteria by which application of the new rules will be determined are not themselves tax rules, but based on other independent criteria, both old and new tax processes will need to exist side by side to serve the two separate communities of taxpayer. The length of time for which this duplication exists will depend not just on how attractive HMRC can make the processes, but whether the national infrastructure exists for taxpayers to take advantage of them.

26) The introduction of facilities to report additional income (from the timeline on page 12 of the recently published HMRC document "Making tax digital" accessible via https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/484668/making-tax-digital.pdf) is presumably linked to the operation from July 2017 of "automatic tax

code adjustment [to] prevent PAYE under and overpayments". Use of these mechanisms will be compulsory for those with additional income in excess of £10,000, but apparently voluntary for those below the threshold. Where reporting is voluntary, there will be potential for confusion over what/whether things have been reported.

27) Development of the related penalty regime will be challenging. Taxpayers should be encouraged to embrace the new technology and process, as there are significant potential benefits from aligning the tax cash flow more closely with the underlying income streams. However, as long as the process remains voluntary there will be both practical and legal difficulties in establishing the nature of conduct which should attract a penalty.

28) We should note that while there will be difficulties in developing this model, it does on balance appear more attractive than imposing compulsory reporting on all taxpayers, since the widespread imposition of penalties in the early years of the new process could have a detrimental impact on the public perception of HMRC and the tax system.

29) ACCA would recommend the introduction of the penalty regime for any iteration of the new process to incorporate a "soft landing" period, not least because it seems likely that in the early stages of adoption HMRC will also need time to adapt its processes and behaviours. Widespread disputes over liability to penalties would divert resources away from the adoption of the new regime, in addition to the direct negative impact on perception and taxpayer relations.

30) These proposals go beyond simply collecting the information needed for the annual assessment of business profits, and attempt to monitor businesses' performance throughout the year in a manner which, while it may be advantageous for a few, is likely to be a burden for many, and will in some cases actively disadvantage the business by presenting an unrealistic picture to HMRC unless there are fundamental changes to the underlying primary legislation.

31) Taxes exist for the benefit of society, and reflect the relationship between the individual and the state. While it may be fair and sensible for certain compliance obligations to be imposed in return for specific legal privileges (for example, filing of limited liability corporations accounts in a format will allows government to aggregate data for modelling purposes, to the benefit of wider society) the administrative authority should take care not to place its own convenience or ambitions above the practical realities of what small business should be expected to bear for the common good.

32) In the light of all the evidence on previous significant tax law changes and significant government IT projects we consider the proposed timetable to be extremely ambitious.

33) While we welcome HMRC's initiative in putting forward such bold proposals, and recognise the genuine benefits which technology can bring, it is vital that not only they but also taxpayers are in a position to take full advantage of the opportunities. IT infrastructure for the public (ie fast broadband connections) is not of a universally high enough standard to support the proposals.

34) Out of a population of some 5m businesses who will be affected by these changes, just 30,000 currently use accounting apps of the sort which appear likely to be fundamental to the quarterly reporting process. Achieving universal take-up of such apps within 5 years

(and the associated investment in equipment and process change for many of them) will impose a significant cost on UK business.

35) While there may be no good time for a change of this magnitude, there is such a thing as a good pace for it. The scope for digital processes to make administration of tax better is considerable, and all the advantages set out by HMRC may well ultimately be achievable for those taxpayers who are in a position to usefully engage with them.

36) We would urge HMRC to devote more time to consultation and development of robust and secure processes, alongside the development of enabling legislation which effectively supports the desire to move from an annual assessment cycle with tax assessed and paid in arrears to an on-going process.

Chartered Institute of Taxation

Introduction

1) The Treasury Committee has invited comments on how Autumn Statement 2015 meets the Committee's tax policy principles, as expressed in its 2011 report Principles of Tax Policy. The Chartered Institute of Taxation (CIOT) is pleased to submit some comments, which incorporate points from our Low Incomes Tax Reform Group (LITRG) and also comments from our colleagues at the Association of Taxation Technicians (ATT).

2) The Committee's report identified six principles:

- Basic fairness;
- Supporting growth and encouraging competition;
- Certainty, including simplicity;
- Stability;
- Practicality; and
- Coherence.

We comment briefly under each of the principles but would stress that we are not giving a full analysis of the Autumn Statement. We could not hope to cover the whole range of measures in the Autumn Statement in a short memorandum.

There is also a large amount of overlap in our comments; for example comments on simplicity may also be appropriate to include under the principles of practicality and coherence, although they have not been repeated under more than one header.

References in square brackets are to the relevant paragraphs in the 'blue book'.

Basic fairness

3) The two main tax announcements made at the Autumn Statement (Tax Credits and the Apprenticeship Levy) both have significant 'fairness' elements.

4) The Government's announcement that it will not go ahead with the changes to the tax credit taper rate and thresholds from April 2016 is welcome news for those on lower incomes [3.41]; although a number of other changes will go ahead as planned, including the rate at which overpayments will be recouped from claimants (increased from 25% to 50% of their award). This will still cause financial difficulties for those on lower incomes, including the self-employed, and we comment further in the section Principles of Tax Policy and Autumn Statement 2015: CIOT and ATT Comments 1 December 2015 'Supporting growth and encouraging competition'.

5) The proposed Apprenticeship Levy [3.56] was consulted on during the summer. The Government received over 700 responses, demonstrating that this was an issue with the potential to substantially impact on employers. However, the rate of the levy, at 0.5% of an employer's paybill, and its scope, does not appear to have been consulted upon and was only announced during the Autumn Statement. It is understood that the Government may well not consult on tax rates per se but this measure was presented in the Summer Budget as a response to the decline in the quantity and quality of training. Whilst the £15,000 allowance will relieve many employers from payment of the levy, there appears to be a presumption both that a large paybill (£3m per annum) translates into an ability to pay the levy, which may well not be the case, and that these large employers should also take on apprentices if they are to contribute effectively to the investment in skills the country needs. The definition of an apprenticeship will need to be carefully considered as many large employers invest heavily in training, outside the traditional apprenticeship route. Those employers will effectively fund two lots of training; their own staff, plus the apprenticeships of other employers. There is also the question of how easy it will be for employers to claim the £15,000 allowance and how widely it will be publicised; if smaller employers are unaware of it, or find it too difficult to claim, they may find themselves paying the levy by default.

6) Various changes to personal taxes are aimed at promoting fairness and a level playing field across taxpayers. For example, the restriction of relief for travel and subsistence expenses for workers engaged through an employment intermediary will, if properly enacted, help align the treatment of temporary and permanent employees [3.20]; and the proposed change in treatment of sporting testimonials seeks to put income from employment on a consistent footing. Further, the extended averaging period for self-employed farmers will help iron-out any fluctuations in profits which may arise due to circumstances outside the taxpayer's control [3.21]. These measures therefore score highly on the fairness scale.

7) We are pleased to note that, following representations made by us (and other parties), the Government is considering amending the Finance Act 2015 changes which restricted Entrepreneurs' Relief, to ensure that it remains available on genuine commercial transactions, removing the unintended consequences of the new rules [3.92]. The retrospective removal of a double charge to Capital Gains Tax on nonresidents is also welcome [3.75], as is the extension of reliefs from the Annual Tax on Enveloped Dwellings (ATED) and 15% rate of Stamp Duty Land Tax (SDLT) to equity release schemes, property development and properties occupied by employees [3.73].

Supporting growth and encouraging competition

8) The key measure in this area is the Apprenticeship Levy [3.56], and the Government's intention to create three million apprenticeships by 2020. Such an increase in apprenticeships will undoubtedly support growth. The beneficiaries of the Levy will be small and medium sized enterprises, who may be able to take on an apprentice(s) by virtue of the additional funding available to them when currently that would not be possible. However, we comment upon the rationale for the Levy in the section 'coherence'.

9) We remain concerned, however, that the changes to tax credits, as they affect selfemployed individuals, may stifle new and existing businesses. In particular, the fact that the Universal Credit Minimum Income Floor will be based on the National Living Wage, which could exceed what the individual actually earns in their business [3.45]. This will have a detrimental impact on those who operate seasonal businesses, for example farmers, whose income fluctuates vastly across the year. This could also act as a disincentive for individuals who are either unemployed, or currently in low Principles of Tax Policy and Autumn Statement 2015: CIOT and ATT Comments 1 December 2015 income employment, for taking any entrepreneurial steps because of the reduction in universal credit that will arise. Besides, at the risk of stating the obvious, the selfemployed have no right to be paid the national living wage. The proposed reduction to the income change disregard from £5,000 to £2,500, meaning that this disregard has dropped from £25,000 to only £2,500 in around six years, also results in difficulties for the self-employed or business owners whose profits fluctuate [3.41]. Indeed, individuals who run businesses which become more profitable, and so take additional income, may find themselves owing thousands of pounds in tax credit repayments.

Certainty, including simplicity

10) A number of measures referred to above score positively under this category; for example the changes to sporting testimonials. However, some proposals cause us concern on this subject, and these are illustrated below.

11) Again, it is clear that there is much more thinking to be done around the Apprenticeship Levy. The interaction with the existing construction and engineering construction levies appears unresolved and, with the introduction of the levy in April 2017, employers in those sectors will need to review their long-term training and recruitment plans to understand how they will be affected.

12) A number of measures were announced to combat tax evasion and encourage compliance, including a range of new criminal offences and civil penalties [3.77 to 3.82]. We support HMRC's efforts to tackle tax evasion, but in our view there is already adequate existing law in this area. In accordance with our responses to the recent consultations on these proposals on 9 October 2015 we remain troubled that the new criminal offence for offshore tax evasion [3.77] will remove the need to prove intent on the part of the taxpayer, notwithstanding the fact that the significant majority of respondents to the consultation opposed the introduction of a strict liability offence. We remain concerned that potentially innocent errors (for example through lack of knowledge) may result in criminal prosecution, and will be heard in a magistrates court which may have insufficient grasp of the complex tax law which gave rise to the penalty. However, we are marginally comforted that a threshold and reasonable care defence will be provided, although in

our view the proposed statutory minimum threshold of tax evaded of £5,000 is not high enough for complex cases—a threshold of £25,000 would be a more appropriate level. Also, whilst HMRC state that this penalty will only be applied in the most serious of cases, there is currently no certainty over what that means. We are also unconvinced that there is sufficient current evidence that 'naming and shaming' of taxpayers or their agents produces a sufficient detrimental effect, whilst still encouraging compliance, so that the benefits of extending that regime to offshore evaders and 'enablers' of offshore evasion remain unclear; and the calculation of a new civil penalty linked to the value of the asset on which the tax was evaded sounds unnecessarily complex [3.78]. Further, not excluding from prosecution or 'naming and shaming' those taxpayers who make a full, unprompted, disclosure risks discouraging innocent taxpayers from making a voluntary disclosure, because of the uncertainty surrounding the potential consequences.

13) In a similar vein, a range of measures were announced to combat tax avoidance [3.83 to 3.92]. Again, we generally welcome announcements to close down abusive tax avoidance schemes which seek a tax treatment not intended by Parliament. However, we are slightly bemused why certain measures fall under the 'Tax avoidance' heading, when they are not avoidance (for example, the taxation of asset managers, performance awards [3.90]), or when they historically represented acceptable tax planning (for example, hybrid mismatch arrangements [3.88]). In line with our previous responses to consultations in this area, we do have concerns that certain measures are unfair and introduce uncertainty; for example, the introduction of a 60% GAAR penalty is premature when no cases have yet been heard by the Principles of Tax Policy and Autumn Statement 2015: CIOT and ATT Comments 1 December 2015 GAAR Advisory Panel [3.84] which could well indicate that the GAAR is already having a significant deterrent effect, but does mean that there is little case law to enable the taxpayer to make a reasonably robust assessment of what the GAAR alters and what it does not. The singling out of so-called 'serial avoiders' for naming and shaming, and restrictions on tax reliefs, where they are perceived by HMRC to be persistently entering into unsuccessful tax avoidance schemes [3.83] brings with it further issues, particularly if the basis for HMRC's perceptions is open to challenge.

14) We question the practicality and simplicity credentials of the shorter timeframe for making payment on account of any Capital Gains Tax (CGT) liability on the disposal of a residential property [3.76]. At the time of disposal it is far from clear how much tax will be due on the sale, the calculation of which potentially being affecte by the level of annual allowance available, the relevant rate of CGT, any in year or brought forward losses and any other disposals before or after the current disposal in the same year of assessment. We expect an increase in compliance costs for taxpayers to enable them to comply with the proposed changes as the payment on account stage will have to be followed at the end of the year by a reconciliation.

15) Although we await the draft legislation, clarification of self-assessment time limits [3.96] may help provide certainty over time limits for making a self-assessment, and we note the proposal for 'simple assessment' [3.99] to keep people who have simple tax affairs out of the self-assessment regime. We also welcome the announcement that the rules on deeds of variation will not be restricted [3.37].

Stability

16) Our central concern in this area is that the Government are introducing changes which are designed to supplement or strengthen existing measures, when those existing measures haven't been given time to 'bed in'. Whilst we support in general the Government's efforts to stamp out evasion and unacceptable tax avoidance, many of the measures appear either premature or unnecessary [for example 3.77 to 3.80, 3.83, 3.84 and 3.91]. By way of illustration, to combat tax avoidance the Promoters of Tax Avoidance Schemes (POTAS) legislation was introduced in Finance Act 2014, as well as the accelerated payment notice (APN) and follower notice (FN) regimes. In addition, changes to the Disclosure of Tax Avoidance Schemes (DOTAS) rules intended to tighten up the reporting of schemes were introduced in Finance Act 2015, and are still in the process of being introduced. It would be sensible to give these measures time to take effect, and to undertake a review of their effectiveness, before further legislation is enacted.

17) We also urge the Government not to underestimate stability when considering responses to the summer consultations. For example, in our response to the pensions tax relief consultation, we emphasised the need for stability and certainty, particularly in relation to long-term matters such as the level of tax relief available on pension contributions, the tax treatment of the pension upon retirement etc. It is stated that the Government's response to the pensions tax relief consultation will be published at Budget 2016 [3.26] and we would urge the Government to place stability high on its list of priorities.

18) We are concerned over the lack of clarity and stability on environmental taxation. The removal of the Climate Change Levy exemption for renewably sourced electricity will impact upon producers who have invested heavily in this area in the expectation that such reliefs would remain [3.67]. The changes to the availability of tax incentives for investments in certain renewable energy producers also evidences the instability and complexity of the Government's environmental taxes policy. We advocate an environmental tax roadmap along the lines of the business taxes plan adopted in the last Parliament to rebuild confidence among businesses and the general public and provide greater long-term certainty in this area. Principles of Tax Policy and Autumn Statement 2015: CIOT and ATT Comments 1 December 2015.

19) However, notwithstanding the number of comments we have across the various headings, we welcome the fact that, after already having two Budgets in 2015, there were relatively few tax measures in the Autumn Statement.

Practicality

20) Under this heading we consider taxpayers' (and their advisers') ability to apply the measures which are proposed.

21) HMRC is investing heavily in 'Making Tax Digital' to transform HMRC 'into one of the most digitally enhanced tax administrations in the world'. We note that further consultation will occur in 2016, with savings expected to be generated from 2018/19. At the moment, only a small amount of detail has been provided, but we are already concerned that most small businesses will be required to update their digital tax account 'at least quarterly'. Many small businesses will not prepare quarterly accounts (even those who are VAT registered), and so this is likely to impose an additional compliance burden,

even with the assistance of free apps and software. Further, many businesses outsource their record keeping, and their agent would need full access to the client's digital tax account in order to comply with the new rules, and we are concerned that agent access will lag behind the roll out of the digital tax accounts to taxpayers and businesses. In any event, many of the smallest businesses do not use computers at all, or are unable to use computers or the internet because of age, disability, remoteness of location and so on. Time will tell whether these changes are practical for businesses to implement and we would encourage HMRC to consult widely with agents and taxpayers alike to ensure what is developed is fit for purpose but, at the very least, this additional burden further strains the credibility of the Government's claim that they can reduce the annual cost to business of tax administration by £400 million a year by 2020 [3.94].

Coherence

22) As yet we have not mentioned one of the other main tax announcements; the additional 3% SDLT on purchases of additional residential properties from 1 April 2016. [3.70]. We understand that this forms part of the Government's housing agenda; to build more affordable homes and to address the cost of houses contributed to by second-home ownership in areas such as London and Cornwall. We do not propose to comment upon the policy rationale for the change. However, our primary concern relates to the potential complexity of the measure—in particular, when the additional rate will apply, how any reliefs will be framed etc., considering the extremely short period available for consultation, and our understanding that it will not contain draft legislation.

23) We also note the fragmented way in which taxation changes which have a similar theme are being introduced. By way of example, changes to the taxation of residential property letting have been introduced in a piecemeal fashion as follows:

- Restriction from April 2017 of the relief available on finance costs—see section 24 of the Finance (No. 2) Act 2015;
- Additional 3% SDLT on buy-to-let properties [3.70] from April 2016; and
- The accelerated payment of Capital Gains Tax on residential properties from April 2019 [3.76].

In the same context, we note the principle of fairness was referred to in support of the section 24 restriction of relief for finance costs (as owner occupiers receive no comparable relief) but the resulting discriminatory treatment of individual or trust landlords (when compared with corporate landlords) was ignored. Overall, we think that individual and trust landlords of residential property might well consider that the principles of fairness, certainty (including simplicity), stability, practicality and coherence had all been overlooked.

24) Finally, we return to the Apprenticeship Levy. The Levy is intended to create three million apprenticeships by 2020, and is expected to raise £2.730bn in 2017/18, rising to £3.095bn in 2020/21 [Table 3.1]. However, notwithstanding the fact that this is perhaps the most significant tax announcement in the Autumn Statement, there is a lack of clarity surrounding funding in this area, the extent to which it will be existing funding which will be withdrawn and the extent to which the money will be ringfenced. It would be

helpful for the Government to publish a breakdown of spending on apprenticeships over time to assist analysis of this area.

Conclusion

25) In the light of all the above, we have mixed feelings on how well the Autumn Statement scores under the Committee's headings. Some of the categories have measures that score well but there are more areas where we have concerns. We are pleased that the Government has listened to the feedback it has received and has decided to amend its plans in a number of important areas, including some of the proposals on Tax Credits and to consider changes to Entrepreneurs' Relief. However, the rationale for and operation of the Apprenticeship Levy, the raft of changes surrounding tax evasion and avoidance, coupled with the uncertainties surrounding Making Tax Digital, bring down the final score.

26) On balance, we feel that a rating of 6/10 is appropriate.

The Chartered Institute of Taxation

27) The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

28) The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

29) The CIOT's 17,500 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification. The Chartered Institute of Taxation

Institute of Chartered Accountants in England and Wales

Traffic light assessment

The Treasury committee has six principles for tax policy: that it should be **fair, support growth and competitiveness, certain** (i.e. legally clear, targeted and simple), **stable, practical,** and **coherent**. We have assessed how the measures in the 2015 Autumn Statement match up to the principles.

Measure	Fair	Supports growth	Certain	Stable	Practical	Coher-ent	Overall
Buy-to-let measures: SDLT increase and CGT advancement	Neutral	Neutral	Neutral	Fail	Fail	Neutral	Neutral
Apprenticeship levy: 0.5% of payroll above £3m	Neutral	Neutral	Fail	Fail	Fail	Neutral	Fail
Tax relief for travel and subsistence	Pass	Neutral	Fail	Fail	Pass	Neutral	Neutral
Corporation tax: restitution interest: 45% charge	Fail	Neutral	Pass	Neutral	Pass	Neutral	Neutral
Anti-avoidance measures: GAAR penalty	Neutral	Neutral	Fail	Neutral	Neutral	Neutral	Neutral
Offshore tax evasion:	Fail	Neutral	Fail	Neutral	Fail	Neutral	Fail
Making tax digital	Neutral	Fail	Neutral	Neutral	Fail	Neutral	Neutral
Entrepreneurs' relief	Pass	Pass	Pass	Pass	Pass	Pass	Pass

Key

- Pass
- Neutral
- Fail

About ICAEW

ICAEW is a professional membership organisation, supporting 144,000 Chartered Accountants who advise over 1.5 million UK businesses. Under our Royal Charter, our world-leading Tax Faculty works closely with HMRC up to a year ahead of every Budget to help strengthen and inform new tax law, in the public interest.

Detailed comments

Buy-to-let measures

From 1 April 2016, SDLT will be 3 percentage points higher than the standard SDLT rates on purchases of additional residential properties, with a starting band of £40,000 rather than £125,000. This additional charge will apply to buy-to-let properties and second homes. This is expected to raise £625m in 2016/17 for the Exchequer rising steadily each year to £880m in 2020/21. From April 2019, CGT due on the sale of a residential property will have to be paid on account within 30 days of completion. This will affect sales of second homes as well as buy-to-let properties. It will not affect properties where there is no CGT liability due to private residence relief.

- While we understand the policy purpose, we remain concerned about the fairness of these measures which cut across treating all taxpayers equally.

- The SDLT looks difficult to apply in practice and we are not sure how it will work if, for example, there are multiple purchasers who might have different statuses in respect of existing property
- We are concerned about the lack of stability within the buy-to-let market.
- We are concerned that this measure potentially creates considerable disparities between the Scottish SDLT and UK SDLT which may create local distortions in the property market.

Apprenticeship levy

By far the biggest revenue raiser in the Autumn Statement 2015 is the apprenticeship levy, set to bring in more than £3bn a year by 2020/21. The levy will be 0.5% of payroll costs and will affect employers with a payroll over £3m from April 2017. There will be a £15,000 allowance which will eliminate any liability for employers with payrolls up to that amount. The government estimates that the levy will only be paid by 2% of employers.

- The payroll cost will be based on earnings, excluding benefits-in-kind. It is not clear how this will affect those employers who choose to payroll benefits in the future.
- The consultation seems to disregard the significant contribution that many large businesses already make to improving the skills of the workforce.
- HMRC's employer PAYE accounting system is not an appropriate vehicle for assessing or collecting an apprenticeship levy, because it is not sufficiently robust to account correctly even for PAYE liabilities and payments.
- With BIS, the SFA, the Apprenticeship Board and HMRC all involved, clear communication and a well-resourced process will be critical to create the online platform to manage the exchange of funds and digital vouchers and the flow of information between employers, government and providers. There are very significant risks associated with adapting an existing IT platform to support the PAYE and digital vouchers approach; equally, a bespoke system will require resourcing, planning, testing and careful implementation.
- Government must not forget to safeguard quality control and an appropriate monitoring and oversight regime needs to be put in place that guarantees transparency in its quality check of apprenticeship and employer experience.

Tax relief for travel and subsistence

Tax relief on travel and subsistence expenses will be restricted from 6 April 2016 for workers engaged through an employment intermediary, such as an umbrella company or a personal service company.

- We question the need to act now, before other changes implemented from earlier this year have had a chance to affect working practices.
- We consider that the proposed tax changes for workers supplied by intermediaries are premature and unnecessary because most of the perceived problem will be solved

by the 2016 changes denying exemption for expenses paid through salary sacrifice schemes and the new dividend tax.

Corporation tax: restitution interest

- The Government has decided to apply a new 45% corporation tax charge to restitution interest. This is a reaction to HMRC's defeat in the case of *Littlewoods Retail Ltd and others v HMRC* [2015] EWCA Civ 515, which decided that interest could be awarded on a compound basis. This measure was actually included as an amendment to the Finance (No 2) Act 2015 and applies for restitution interest with effect from 21 or 26 October 2015.
- The point of restitution is to put taxpayers back into the position they would have been had they not had to pay the amounts originally paid.
- We believe it is wrong in principle, therefore to apply a special 45% charge to any restitution payments which is likely to be higher than the equivalent compounded CT rate.
- Charities will be adversely affected as they may not otherwise have been taxable on this interest.

Anti-avoidance: GAAR penalty

A new penalty of 60% of the tax due will apply in all cases successfully countered as a result of the GAAR. It is estimated that this will bring in £20m and £25m in 2017/18 and 2018/19 respectively but the amount collected will then decline to £5m in the following two years.

- We support reasonable and proportionate measures to address tax avoidance. However, it is essential that any measures are properly targeted, that uncertainty is not increased and that burdens for ordinary businesses not engaged in tax avoidance are increased.
- Given we have not seen any specific cases in the public domain about the operation of the GAAR, it would appear premature to introduce a 60% penalty on arrangements counteracted by the GAAR.
- Given that the GAAR is a self assessed tax, we can understand the need to make sure taxpayers correctly consider its applicability when filing their tax returns.
- However, the GAAR is a 'reasonableness test which results in considerable uncertainty and a certain degree of subjectivity as to whether it applies. Applying a 60% penalty appears draconian and appears to be closer to a criminal rather than civil penalty, rendering concern about whether the proposed penalty would be upheld on appeal.

Offshore tax evasion

The Government is introducing two new criminal offences. The new criminal offshore evasion offence removes the need to prove intent for the most serious cases of failing to declare offshore income and gains. In addition, a new criminal offence will be introduced for corporates which fail to prevent their agents from criminally facilitating tax evasion by an individual or entity. In addition, there will be a new range of civil penalties for offshore evasion.

- While we support the Government's efforts to tackle tax evasion, we are concerned that measures such as these are potentially draconian, may criminalise innocent mistakes, may result in criminal records arising even where reasonable procedures were in place to try and prevent offshore tax evasion.

Making tax digital

The Government is investing £1.3 billion to transform HMRC into one of the most digitally advanced tax administrations in the world, with access to digital tax accounts for all small businesses and individuals by 2016/17.

- While we support in principle HMRC's digital agenda and the digital tax account proposals, we are opposed to the Government's proposal that, by 2020, most businesses, the self-employed and landlords will be required to keep track of their tax affairs digitally and update HMRC at least quarterly via their digital tax account. It is the compulsion to use digital and report more frequently which we consider to be unfair to businesses. Reporting quarterly may be possible and even welcome by some who want to account for and pay their tax in year as they go along, but it will impose a considerable burden on many others.
- The requirement to submit quarterly information is bound to increase business administration and costs, and we do not see how such a measure could help towards reducing the cost to business of tax administration by the target of £400 million by the end of 2019/20, as set out in para 1.289 of the Autumn Statement 'Blue Book'.

Entrepreneurs' relief

Finance Act 2015 introduced some restrictions on entrepreneurs' relief (ER) but also included some unintended consequences. We have been liaising with HMRC with the hope that changes can be made to remove the unintended consequences. The Blue Book notes that 'the government will consider bringing forward legislation to amend the changes made by Finance Act 2015 to entrepreneurs' relief, in order to support businesses by ensuring that the relief is available on certain genuine commercial transactions' which is good news for business.

Formal Minutes

Tuesday 9 February 2016

Members present:

The Rt Hon Mr Andrew Tyrie, in the Chair

Mr Steve Baker
Rachel Reeves
Mr Jacob Rees-Mogg

Draft Report (*Spending Review and Autumn Statement 2015*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 128 read and agreed to.

Papers were appended to the Report.

Resolved, That the Report be the Sixth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

[Adjourned til Wednesday 10 February at 2.00pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry page of the Committee's website.

Tuesday 1 December 2015

Rt Hon George Osborne MP, Chancellor of the Exchequer, **Rt Hon Greg Hands MP,** Chief Secretary to the Treasury, **Julian Kelly,** Director General, Public Spending and Finance, HM Treasury, and **Clare Lombardelli,** Director of Strategy, Planning and Budget, HM Treasury Q1–104

Tuesday 8 December 2015

Robert Chote, Chairman, Office for Budget Responsibility**, Sir Stephen Nickell CBE,** Member, Budget Responsibility Committee, and **Graham Parker CBE,** Member, Budget Responsibility Committee Q105–201

Wednesday 9 December 2015

James Sproule, Chief Economist and Director of Policy, Institute of Directors, **Robert Wood**, Chief UK Economist, Bank of America Merrill Lynch, and **Simon Kirby**, Head of Macroeconomic Modelling and Forecasting, National Institute of Economic and Social Research Q202–235

Paul Johnson, Director, Institute for Fiscal Studies**, James Browne,** Senior Research Economist, Institute for Fiscal Studies, and **Gemma Tetlow,** Programme Director, Institute for Fiscal Studies Q236–295

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2015–16

First Report	Reappointment of Robert Chote as Chair of the Office for Budget Responsibility	HC 459
Second Report	The appointment of Dr Gertjan Vlieghe to the Monetary Policy Committee of the Bank of England	HC 497
Third Report	The re-appointment of Ian McCafferty to the Monetary Policy Committee of the Bank of England	HC 498
Fourth Report	Appointment of Tim Parkes as Chair of the Regulatory Decisions Committee	HC 735
Fifth Report	Appointment of Angela Knight as Chair of the Office of Tax Simplification	HC 734