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Treasury Committee

Budget 2018

Twenty-Sixth Report of Session 2017–19

Report, together with formal minutes relating to the report

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The Treasury Committee

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Introduction

The inquiry

1. The Chancellor delivered the 2018 Budget on 29 October. The Treasury Committee took evidence in three meetings, as follows:

31 October 2018: The Office for Budget Responsibility

Robert Chote, Chairman, Professor Sir Charles Bean, Member and Andy King, Member, Budget Responsibility Committee

1 November 2018: Economists

Professor Diane Elson, University of Essex, Paul Johnson, Director, Institute for Fiscal Studies, and Rain Newton-Smith, Chief Economist, Confederation of British Industry.

5 November 2018: HM Treasury

Rt Hon. Philip Hammond MP, Chancellor of the Exchequer and Dan York-Smith, Director, Strategy, Planning and Budgets, HM Treasury.

1 The late provision of policy decisions to the OBR

2. The date of the Budget statement was publicly announced with just over one month's notice on 26 September.[1] In evidence to the Committee, the Chancellor admitted that "this was a compressed timetable":

> The decision around the Budget date was finally taken relatively late. As you know, it was driven in significant part by the crowded nature of the parliamentary timetable […] and the desire to be able to hold the Budget and get the Budget debate completed before we go into recess […] so we always knew that it would be a challenging process.[2]

3. The Memorandum of Understanding between the Office for Budget Responsibility (OBR), HM Treasury and other government departments states that, "in the absence of exceptional circumstances, the Chancellor will give the OBR at least 10 weeks' notice of the chosen date [for publication of the OBR's forecasts]". It further states that once notice is given "the OBR will consult and agree with the Treasury […] the scope, timetable and process for delivery of the forecast."[3] However, in its foreword to the October 2018 *Economic and Fiscal Outlook*, the Budget Responsibility Committee described "repeated failures to observe the [agreed] forecast timetable". In particular:

- The OBR was notified that it should prepare to publish a forecast no earlier than 29 October on 23 August (a little less than 10 weeks).
- In line with the agreed forecast table, the OBR was provided with details of policy decisions with a potential impact on the economy forecast on 17 October and finalised the forecast on that basis. However, on 23 October it was provided with further policy decisions that would have affected the economy forecast. As a result, the economy and fiscal forecasts are not fully consistent (although the impact on the GDP forecast is less than 0.1 per cent each year).
- There were several Department for Work and Pensions (DWP) costings relating to changes to Universal Credit that could not be certified by the OBR, because the Treasury did not provide sufficient information in time. The OBR has incorporated the uncertified estimates but warns that "these are very likely to change once DWP analysts have been able to model their effects properly".[4]

4. Robert Chote, Chairman of the OBR, told the Committee that it had not faced a similar situation previously. He added that the forecasting process had still been much better than it had been prior to the creation of the OBR:

> I think this particular fiscal event was always going to be a tricky one, in terms of timetable and process, relative to the norm. You had a combination of a more compressed timetable than usual. […] You had a relatively large

1 HM Treasury, 'Budget 2018 date confirmed', 26 September 2018 (accessed 20 December 2018)
2 Q179
3 Office for Budget Responsibility, Memorandum of understanding between the Office for Budget Responsibility, HM Treasury, the Department for Work & Pensions and HM Revenue & Customs, 2017
4 Office for Budget Responsibility, Economic and fiscal outlook October 2018, 29 October 2018, pp. 2–3

> change in the underlying forecast. You had a relatively large package of measures, some of which interacted with each other in ways that were quite complicated, […] so it was always going to be trickier than normal.
>
> The important distinction I would make is, first, this is not an episode in which the Government had information that they were withholding from us improperly or in order to make our life more difficult. […]
>
> […] The fact that we are grumbling […] in one way shows you how far the process has improved since the pre-OBR years. We are holding it to a higher standard and obviously a much greater degree of transparency, so we have moved a long way from policy being made at the printworks, which has been the case in some past fiscal events.[5]

5. When asked how the process might be improved following this episode, Mr Chote suggested that the OBR will want "to revisit [with the Treasury] whether the sorts of timetables we put in place are appropriate" and may need to help the Treasury improve its own estimates of the impact of its proposed policy packages on the economy forecast.[6] The Committee also put this question to the Chancellor, but he replied that forecast and policy changes of this size were unlikely to recur in future in any case:

> On both sides, I am sure OBR will be hoping not to have such large revisions to the forecast. In consequence, I very much doubt that many budgets will contain such large, in aggregate, policy initiatives from Government.[7]

6. The OBR publishes data on the size of its revisions to its public sector net borrowing (PSNB) forecast. These show that the revision to the underlying (i.e. before policy and classification changes) forecast in October 2018 was the sixth-largest among the eighteen forecasts it has produced since its first in June 2010, at 0.6 per cent of GDP. The revision arising from changes to policy was the joint-largest on record, at 0.5 per cent of GDP.[8]

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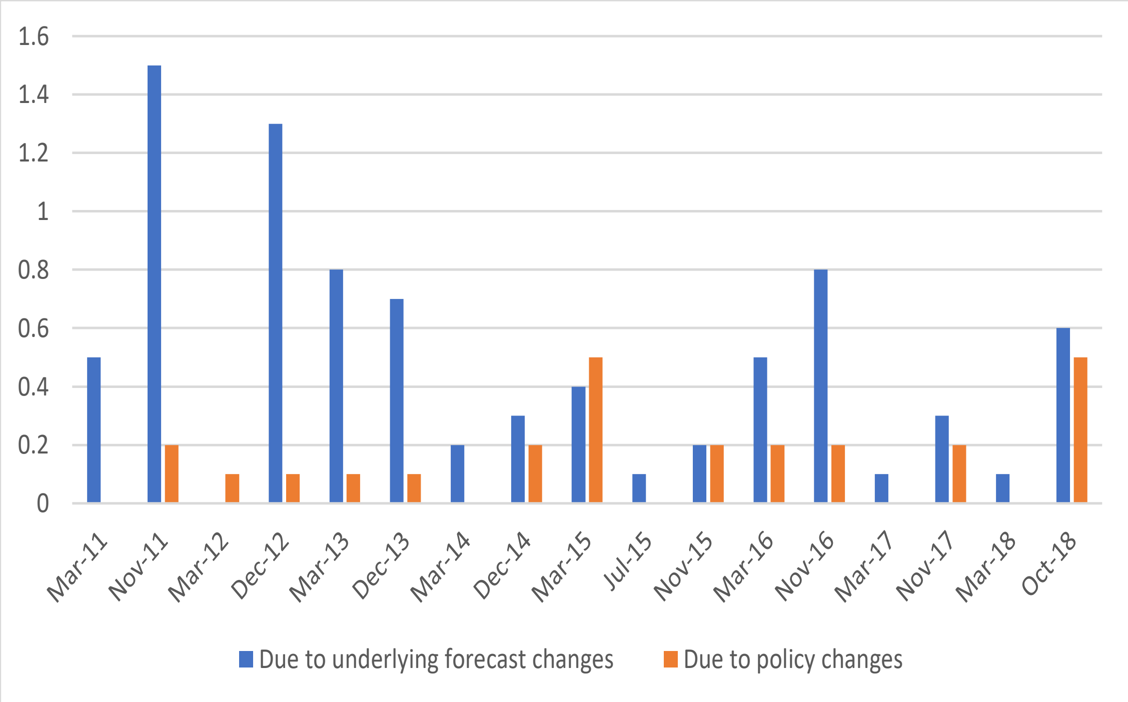
5 Q3
6 Q4
7 Q180
8 Office for Budget Responsibility, Forecast revisions database, accessed 4 January 2018. The figures reported here are the absolute revisions as a percentage of GDP over five years, rounded to 0.1 percentage points. In the March 2015 forecast, the only other in which revisions due to policy changes amounted to 0.5 per cent, the bulk of the revisions occurred in the final year of the forecast only.

Figure 1: Absolute revisions to the OBR's Public Sector Net Borrowing forecasts (percentage of GDP over five years)



Source: Office for Budget Responsibility, forecast revisions database

7. The Chancellor informed the Committee on 5 December 2018 that he had given the OBR notice that the Spring Statement would take place no earlier than the 26 February, and that it would take place between then and the end of March.[9] He told the Committee that he hoped that the OBR would be able to make a clearer forecast of the impact of Brexit at that time, if Parliament had given a clear decision to endorse the Withdrawal Agreement.[10] Parliament subsequently rejected the Agreement in the meaningful vote on 15 January 2019.[11] The OBR's assumptions regarding the impact of Brexit on the economy, and how it would approach forecasting the impact of a "no deal scenario", are discussed in Chapter 3.

8. **The creation of the independent OBR has led to much higher standards for the forecasting process, and it is important that these do not slip. At this Budget, the Treasury failed to keep to the timetable it had agreed with the OBR at the outset of the forecasting process, with the result that the economy and fiscal forecasts are not fully consistent. The forecasting round had been particularly challenging due to a compressed timetable and relatively large underlying forecast revisions and policy changes.**

9. **It is not enough to say, as the Chancellor did, that these problems are unlikely to recur since future and policy revisions are unlikely to be as large in future. In fact, the scale of the revisions was not unprecedented even in the short history of the OBR. There is no excuse for the Treasury taking a chaotic approach on timetabling and policy discussions. The Committee expects the Treasury to engage with the OBR**

9 The UK's economic relationship with the European Union, HC 473, Q1246
10 Ibid, Q1335
11 HC Deb, 15 January 2019, v. 652, cc. 1122–1125

on its suggestions for reviewing and improving the forecast timetabling process. The Committee will consider the detail of this review as part of its scrutiny of the 2019 Spring Statement.

10. **The forecast the OBR prepares for the 2019 Spring Statement may be the first opportunity it has to make a more detailed assessment of the UK's short-term economic prospects after Brexit than the broad-brush assumptions it has made to date. It will also need to make its usual assessment of the impact of global developments on the UK's growth prospects, on this occasion including the recent slowdown in the Eurozone.**[12] **It will be even more important than usual that the Government co-operates effectively with the OBR and provides it with the resources and information it needs in a timely fashion. The Committee will seek assurance that it has done so.**

12 Financial Times, Eurozone slowdown fears mount as growth fails to recover in 2018, 31 January 2019

2 The economic outlook and Brexit

Prospects for the economy and households

11. The OBR forecasts that UK real GDP growth will slow to 1.3 per cent in 2018, from 1.7 per cent in 2017, and fluctuate between 1.4 and 1.6 per cent per annum over 2019 to 2023. CPI inflation is expected to return to the Bank of England's 2.0 per cent target in 2019, while the unemployment rate is expected to fall to 3.7 per cent in 2019 before edging back up to 4.0 per cent over the forecast period. The OBR continues to assume that trend hourly productivity growth will rise gradually to 1.3 per cent in 2023, having made a large downward reassessment of potential productivity growth at its November 2017 forecast.[13]

Table 1: Overview of the October 2018 OBR economy forecast (brackets denote change since March 2018 forecast)

	2017	2018	2019	2020	2021	2022	2023
GDP (% yr/yr)	1.7 (nc)	1.3 (-0.3)	1.6 (0.4)	1.4 (0.1)	1.4 (0.1)	1.5 (nc)	1.6
GDP per capita (% yr/yr)	1.1 (nc)	0.6 (-0.3)	1 (0.4)	0.9 (0.1)	0.9 (0.1)	1 (nc)	1.1
Output gap (%)	0 (-0.1)	0.2 (-0.1)	0.3 (0.2)	0.2 (0.2)	0.1 (0.1)	0.1 (0.1)	0.1
Household consumption (% yr/yr)	1.8 (0.1)	1.3 (0.4)	1.2 (0.4)	1.2 (0.1)	1.3 (-0.1)	1.4 (nc)	1.5
Business investment (% yr/yr)	1.8 (-0.5)	0.5 (-1.1)	2.3 (0.3)	2.1 (-0.1)	2.1 (-0.4)	2.1 (-0.4)	2.2
Net trade (pp contribution to growth)	0.7 (0.3)	0.2 (-0.2)	-0.1 (-0.4)	-0.1 (-0.1)	0 (nc)	0 (nc)	-0.1
Inflation, CPI (% yr/yr)	2.7 (nc)	2.6 (0.1)	2 (0.2)	2 (nc)	2.1 (0.1)	2.1 (0.1)	2
Employment (millions)	32.1 (nc)	32.4 (0.2)	32.7 (0.3)	32.9 (0.4)	33 (0.4)	33.1 (0.4)	33.2
Average earnings (% yr/yr)	2.7 (0.1)	2.6 (-0.2)	2.5 (0.1)	2.8 (0.3)	3 (0.2)	3.1 (0.2)	3.2
LFS unemployment rate (%)	4.4 (nc)	4 (-0.4)	3.7 (-0.8)	3.8 (-0.8)	3.9 (-0.7)	3.9 (-0.7)	4

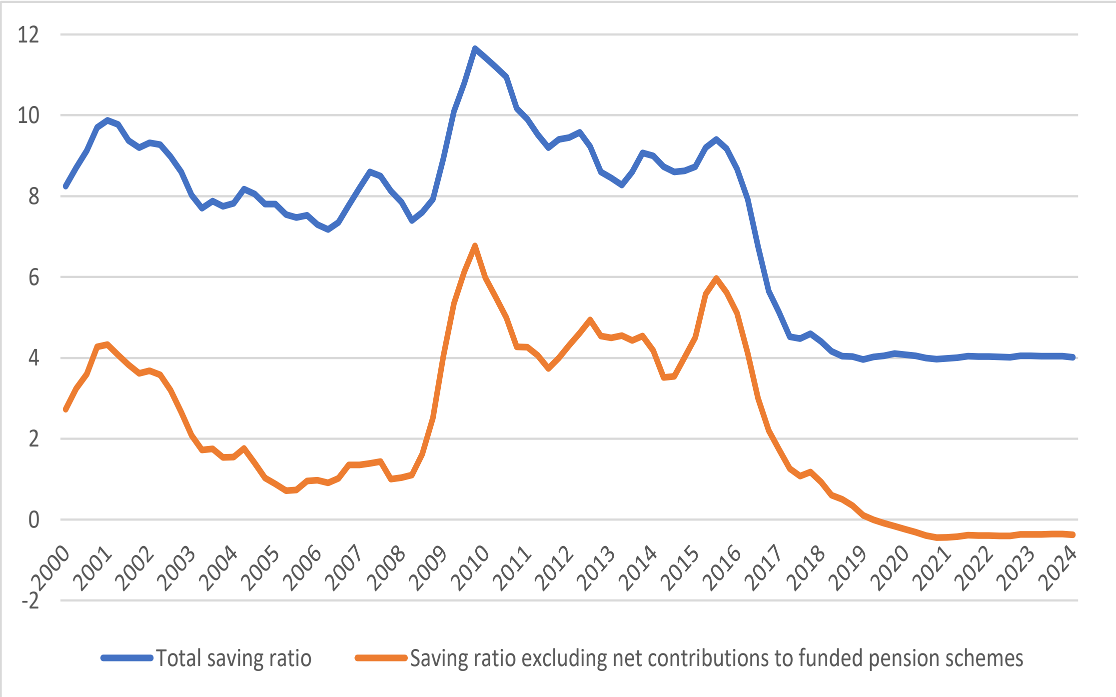
Source: Office for Budget Responsibility, Economic & Fiscal Outlook October 2018, Table 1.1

12. Real household disposable income growth is forecast to be 0.1 per cent in 2018 and zero in 2019, after edging down a little in 2017. Thereafter, the OBR expects it to improve gradually, reaching 1.1 per cent in 2023. Household real consumption growth, meanwhile, is "expected to remain relatively subdued in the near term", at between 1.2 and 1.5 per cent in each year of the forecast. Since this is greater than income growth through most of the

13 Office for Budget Responsibility, Economic and fiscal outlook October 2018, 29 October 2018, table 1.1 p.13 and table 3.1 p.45

forecast period, the OBR forecasts a further decline in the household saving ratio. In cash terms, it expects the ratio to turn negative by 2020, although it cautions that the level of the saving ratio is often subject to revision.[14]

Figure 2: OBR forecast of the household saving ratio (per cent of disposable income)



Source: Office for Budget Responsibility, Economic & Fiscal Outlook October 2018, chart 3.21

13. In its 2018 report on *Household Finances: income, saving and debt*, the Committee recommended that the Treasury should assess the overall state of household finances and the household saving rate:

> […] Treasury Ministers are ultimately responsible for ensuring that low rates of saving or high rates of indebtedness do not imperil long-term economic stability or living standards.
>
> The importance of this responsibility is not reflected in the Autumn Budget report, which contains no discussion of household savings or debt. The Treasury rightly has much to say about the public finances. In the [2018] Budget, the Treasury should report on the state of household finances and the level and rate of household savings, at a regional and national level, including its assessment of the implications for future living standards and wider economic stability. It should identify the most consequential risks to the financial resilience of households and set out its strategy for addressing them.[15]

14 Ibid, pp. 54 and 64 to 68

15 Treasury Committee, Household finances: income, saving and debt, Nineteenth Report of Session 2017–19, 18 July 2018

14. The Budget report announces some policies designed to support over-indebted households and the provision of affordable credit, including a pilot of a no-interest loans scheme. The Government also published a consultation on the design of the statutory breathing space and debt repayment scheme for people in problem debt.[16]

15. **The Budget includes some policies to support over-indebted households, but the Treasury has once again failed to make an assessment of the overall state of household finances and household savings, and the implications for wider economic stability. This is despite the fact that the OBR forecasts the household cash savings ratio to fall further and into negative territory. It is concerning that the Treasury has no obvious strategy in connection with household finances. The Committee re-iterates its recommendation that the Treasury should report on these issues and set out a clear strategy for addressing them at future Budgets.**

Brexit and 'no deal'

16. The OBR has retained the same broad-brush assumption regarding Brexit since its first post-referendum forecast. In the *Economic and Fiscal Outlook*, it states that "given the current uncertainty as to how the Government will respond to the choices and trade-offs facing it during the negotiations […] we still have no meaningful basis for predicting the post-Brexit relationship between the UK and EU upon which we could then condition our forecast."[17] It also states that "when concrete agreement on the relationship between the UK and EU is reached, we will adjust our Brexit assumptions as necessary."[18] The OBR has published a discussion paper outlining what this will involve and how it could affect the forecast.[19]

17. The OBR assumes that the UK and EU negotiate an "orderly transition to a new long-term relationship" and describes a disorderly exit as "among the downside risks confronting the economy, the most immediate and significant".[20] Professor Sir Charles Bean, a member of the OBR's Budget Responsibility Committee, told the Committee that any forecast the OBR made in the context of what he called a "disorderly no deal" would be highly uncertain:

> A key thing there is that you have to start drawing on what information you can get from participants in the economy about how they are preparing for this scenario. [The Bank of England] has its network of regional agents: 8,000 or 9,000 business contacts, the senior decision-makers' panel of significant decision-makers in business. I am sure the Bank, like us, will want to try to get a quick fix on how businesses are likely to respond.
>
> Having said that there is bound to be a lot of uncertainty. How will households respond? The thing about these sorts of events is that you can get amplifying processes kicking in that you don't necessarily foresee

16 HM Treasury, Budget 2018, 29 October 2018, p.80
17 Office for Budget Responsibility, Economic and fiscal outlook October 2018, 29 October 2018, pp. 33–34
18 Ibid, p. 36
19 Office for Budget Responsibility, Brexit and the OBR's forecasts, Discussion paper No. 3, 10 October 2018
20 Office for Budget Responsibility, Economic and fiscal outlook October 2018, 29 October 2018, p. 12

> upfront—this of course happened during the financial crisis—but the way we would go about it is to try to use those additional sources of information as much as we could.[21]

18. Robert Chote told the Committee that the fiscal impact would depend on whether a disorderly exit would have long-term effects:

> The fiscal consequences at large depend an awful lot on whether your short-term problem translates into a permanent loss of potential GDP and potential output relative to your expectations beforehand.
>
> In the case of a disorderly exit, I suspect that this would depend an awful lot on whether you just gummed the whole economy up for six months but then you are back straightforwardly, or whether this is the sort of thing that has longer term lasting effects. Clearly, if it is combined at the same time with a big change in business investment behaviour, and an even greater period of uncertainty, then that could have those sorts of implications.[22]

19. The Committee has recently reported on the Government's long-term analysis of the economic impact of the Withdrawal Agreement and other Brexit scenarios, and on the Bank of England's analysis of short-term orderly and disorderly Brexit scenarios. It concluded that the Government's White Paper scenario could not be used to inform Parliament's vote on the Withdrawal Agreement, and that Parliament may wish to draw from the range of scenarios in the Government analysis in order to assess the Agreement's economic impact.[23]

The Chancellor's claim of a 'deal dividend'

20. At his speech to the 2018 Conservative Party conference, the Chancellor said that there would be a boost to economic growth once a withdrawal deal had been agreed with the EU, which he called a "deal dividend".[24] He reiterated this claim in his Budget speech:

> We are at a pivotal moment in our EU negotiations, and the stakes could not be higher. Get it right, and we will not only protect Britain's jobs, businesses and prosperity, but we will also harvest a double "deal dividend": a boost from the end of uncertainty, and a boost from releasing some of the fiscal headroom that I am holding in reserve at the moment.[25]

21. The Chancellor's claim that there would be a "deal dividend" is examined in the remainder of this chapter. His claim that a second "deal dividend" would arise from the release of fiscal headroom is examined in Chapter 5.

22. In oral evidence to the Committee, Paul Johnson, Director of the Institute for Fiscal Studies, interpreted the Chancellor as referring to an improvement in investor certainty if 'no deal' were avoided but was unsure that this could be described as a dividend:

21 Q15

22 Q19

23 Treasury Committee, The UK's economic relationship with the European Union: The Government's and Bank of England's Withdrawal Agreement analyses, Twenty-Fifth Report of Session 2017–19, 10 December 2018

24 The Financial Times, Hammond tries to get Eurosceptics on board with 'deal dividend', 1 October 2018

25 HC Deb, 29 October 2018, v. 648, c. 654

> The OBR have constructed their forecast on the assumption of a decent deal. They are not constructed with a probability of no deal built in. That said, there are some forecasters in the City who do take the view that if we get over the hump of this uncertainty, there will be a sigh of relief and some additional investment and therefore a bit more growth in the short run. […] If we avoid disaster, people will breathe a sigh of relief and things will be a little bit better, but that's absolutely not built into the OBR forecast.[26]
>
> […]
>
> I think it is odd to refer to a "dividend". Essentially what I think is being talked about is avoiding something really very bad. If you think of that as a dividend, well, fair enough, but I don't think normal English would support that.[27]

23. Rain Newton-Smith, Chief Economist at the Confederation of British Industry (CBI), thought that any such uplift to growth would be limited, since "my sense […] from talking to companies is that they do not have a button that they are ready to press as soon as we have that deal secured [but instead that] once we have that deal secured they at least can breathe a sigh of relief."[28]

24. Referring to non-OBR estimates that UK GDP currently may be 1.5 to 2.5 per cent lower than it otherwise would have been if the EU referendum had not taken place,[29] Robert Chote told the Committee that

> Near term, the idea that you have dodged a particularly disorderly outcome but you are still left uncertain where you are going to be at the endpoint, it would seem unlikely to me that that would deliver a positive surprise that would recover 2 per cent of GDP relative to the path that you would otherwise expect.[30]

Mr Chote also said that insofar as growth in business investment improved, the public finances could be weakened in the short term owing to increased use of capital allowances.[31]

25. The Chancellor suggested that the OBR was not able to forecast an improvement in business confidence ahead of a deal being agreed with the EU:

> I do not think the OBR would demur from the suggestion that getting a deal agreed with the European Union, which will allow an implementation period and a smooth transition to a future relationship, is likely to have a positive impact on business confidence. […] I hesitate to speak for it, but I am sure the OBR would say that, until it sees exactly what that future deal looks like […] it will not be able to make a full judgment about the impact of it on the UK economy.[32]

26 Q148
27 Q156
28 Q154
29 Q27
30 Q33
31 Q29
32 Q250

The Chancellor also said that he would be "very happy" to accept a short-term shortfall in fiscal revenues in return for improved business investment.[33]

26. **The OBR already assumes in its forecast that the UK makes an orderly transition to its new economic relationship with the EU. Therefore, no "deal dividend" over and above the existing forecast could be attained simply by avoiding a disorderly outcome. Beyond this, there could be some improvement to business confidence and investment following a an orderly transition or a resolution of Brexit-related uncertainty that is not currently forecast by the OBR. It is not credible that this be described as a dividend.**

33 Q253

3 The "end of austerity"

Defining austerity and its end

27. A section of the Prime Minister's speech at the 2018 Conservative Party Conference was titled "end of austerity". She said that "a decade after the financial crash, people need to know that the austerity it led to is over and that their hard work has paid off."[34]

28. The Chancellor took up this theme in his Budget speech to the House:

> Today, I can report to the British people that their hard work is paying off, and the era of austerity is finally coming to an end.
>
> […]
>
> If we want sustainable world-class public services and rising living standards, we must make the serious long-term reforms our economy needs to tackle the productivity challenge […] That is because […] ending austerity is not just about funding public services; it is about real wage growth and leaving more of people's hard-earned money in their pockets.[35]

The Chancellor also confirmed that a Comprehensive Spending Review would take place in 2019.[36]

29. The Committee asked the Chancellor to explain how he defined austerity and how it is coming to an end. His definition encompassed stronger economic growth, higher funding of public services and lower taxation of income:

> I said in my Budget speech […] that, from our point of view, austerity is not only a measure of public sector spending. It also refers to broader issues.
>
> As austerity comes to an end, I would want to see our public services being financed more generously than they were over the period of fiscal consolidation. I would want to see real wages growing sustainably, so that households could plan on and expect incomes and living standards to be rising year on year and, as part of that, I would want to see them being able to anticipate keeping a larger proportion of the income they earned in their own pockets, all of which of course implies sustained economic growth over a period of time.[37]

Fiscal loosening ahead of the Spending Review

30. In the *Economic & Fiscal Outlook*, the OBR describes the overall changes to fiscal policy made at this Budget as "the largest discretionary fiscal loosening at any fiscal event since the creation of the OBR [in 2010]". The direct impact of Government decisions at this Budget increases PSNB by £10.9 billion in 2019–20, rising to £23.2 billion in 2023–24.[38]

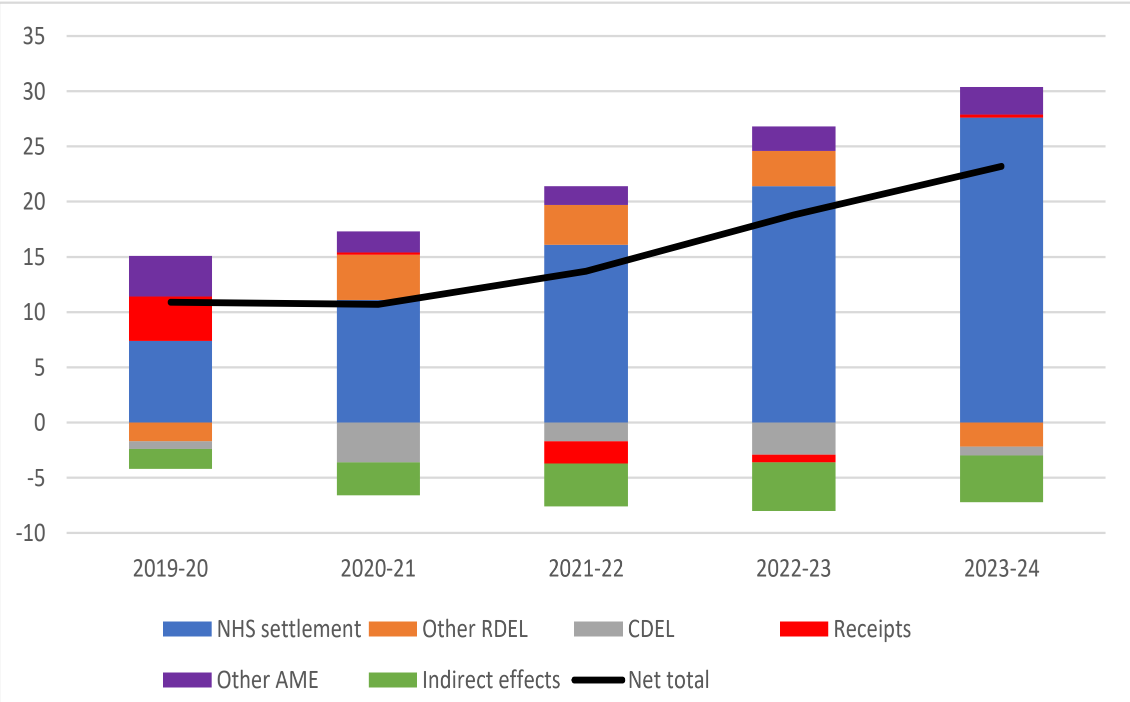
34 CCHQ Press Office, Prime Minister: Our future is in our hands, 3 October 2018
35 HC Deb, 29 October 2018, v. 648, c. 654
36 Ibid
37 Q189
38 Office for Budget Responsibility, Economic and fiscal outlook October 2018, 29 October 2018,pp. 172–174, table 4.35

31. By far the largest contributor to this fiscal loosening is the increased funding for the National Health Service (NHS) in the five-year funding plan that was announced by the Prime Minister some four months prior to the Budget.[39] The NHS settlement increases PSNB by £7.4 billion in 2019–20, rising to £27.6 billion in 2023–24 (more than the total net increase in borrowing). The OBR identifies the other major elements of the package as a boost to non-NHS current departmental spending (RDEL) of £3.6 billion on average per year, above-inflation rises in the income tax personal allowance and freezes to fuel and some alcohol duties, and an increase in Universal Credit work allowances.[40]

32. The fiscal loosening is large enough to have indirect macro-economic effects that reduce its fiscal cost by generating a cyclical boost to the economy (also resulting in a "small positive output gap [at] the end of the forecast" and a "modest upward effect on inflationary pressure").[41] The Chancellor told the Committee he was not concerned by this:

> The positive output gap goes from 0.2 per cent to 0.3 per cent before dropping back on the OBR's numbers. The OBR is showing CPI inflation at 2 per cent average over the course of the next year, so we do not see an inflationary risk from the Budget package as a whole.[42]

Figure 3: OBR forecast of the effect of Government decisions on public sector net borrowing (£ billion)



Source: Office for Budget Responsibility, Economic & Fiscal Outlook October 2018, table 4.35

39 gov.uk, Prime Minister sets out 5-year NHS funding plan, 18 June 2018 [access 11 January 2019]
40 Office for Budget Responsibility, Economic and fiscal outlook October 2018, 29 October 2018,pp. 172–174, table 4.35
41 Ibid, p. 50
42 Q206

33. The Committee asked Robert Chote whether this package amounted to "the end of austerity":

> It is not a "yes" or "no" question. It depends on what you mean by that. Some people will look at a relatively narrow definition of public spending to come up to that conclusion, others will look more at what this is implying for living standards in terms of the implication of welfare changes and tax changes for individuals and households' income as well. The definition of "austerity" is not one of the benchmarks that we have been asked to test […], thankfully.
>
> In terms of the package itself, clearly this is a large discretionary loosening. Of course, ironically, that was the case when the health announcement was made back in June, so the rest of the package, the elements that have been added in here that were not there already, is much smaller. It is a giveaway of roughly £5 billion in the near term that then diminishes to a statistically negligible takeaway in the fifth year of the forecast.[43]

34. Sir Charles Bean told the Committee that the overall level of non-health RDEL spending plans implied that many departments would still face tight budgets:

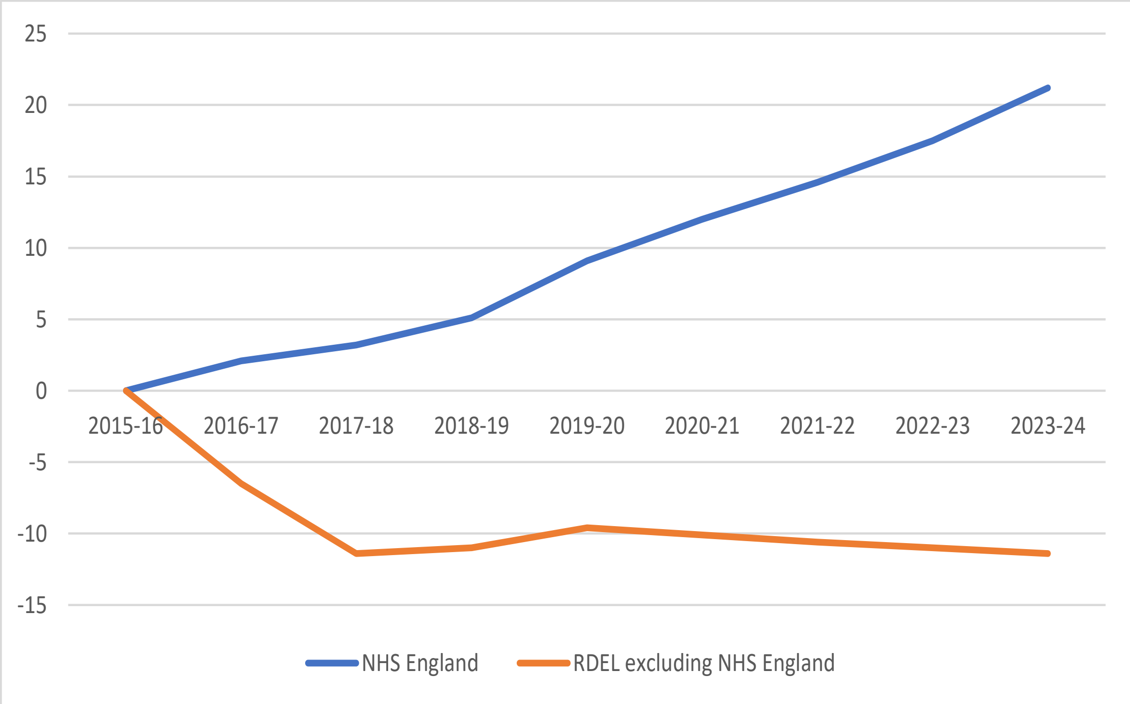
> Yes, so chart 4.6 on page 142 [of the *Economic and Fiscal Outlook*, reproduced as Figure 4 {below] is the big picture story. [It] tells you the story of significant increases in the health sector. [The non-NHS line] was declining for the past couple of years. It is now flattening off, but of course that being stable does not tell you what happens to the individual Departments within that.
>
> We know that the Chancellor announced increases for defence and overseas aid, and, if the overall total for non-health Departments is flat and some are getting an improvement, simple mathematics tell you that some others must be facing further constraints but who they are, presumably, we will not find out until the Spending Review.[44]

35. The Committee discussed with economists some of the constraints that remained on certain areas of public spending and the major details and choices that remained pending the Spending Review. According to Paul Johnson, there were only major decisions on the future of public spending for the NHS, while decisions on other areas and the overall envelope are awaiting the Spending Review:

> I would […] summarise the Budget as finding some extra money from lower borrowing and spending it on the NHS. Despite the fact that the Chancellor spent an hour and a half speaking, there was not much else in there at all.[45]
>
> […] There is a cost to putting off the spending review. We were expecting at least a spending review total in the Budget, and we didn't get that.[46]

43 Q38
44 Q39
45 Q144
46 Q173

Figure 4: OBR forecast of change in real RDEL limits per capita (percentage change since 2015–16)



Source: Office for Budget Responsibility, Economic & Fiscal Outlook October 2018, chart 4.6

36. Professor Diane Elson of the University of Essex, described social care as an area where major spending decisions were yet to be made:

> A very, very small amount of money has been allocated [to social care], and it is temporary funding. The big problem is that local government funding is set to take further big hits, and social care is really something that comes out of local government budgets. […] We need to start thinking more profoundly about this and start thinking about having a national social care service in the way that we have a national health service […][47]

Mr Johnson agreed that pressures remained on social care and local government funding:

> Local government spending has fallen by about 20 per cent over the last eight years, and of course social care spending is the biggest part of local government spending. Adult social care spending has been relatively protected within that. It has only fallen by around 10 per cent, at a time when both the older population is growing and the cost of demands from people of working age using social care, which we often forget, have been growing quite fast for all sorts of reasons, partly to do with people living longer with very debilitating illnesses.
>
> […] Within the current system, it is clearly funded significantly less well than it was a decade ago. That is creating pressures which are differential by different authorities, because different authorities are being affected differently, both by ageing and by the cuts that they have had.

47 Q170

> […] I think it was a year ago that the Chancellor put more money into social care, and he has put a bit more money in now, but these look like sticking plasters.[48]

37. In its report on the Autumn 2017 Budget, the Committee recommended that the Government consider the allocation of social care funding across local authorities:

> Unless there is a strong justification for why social care funding requirements should grow in line with the council tax base in each local authority, the precept is not a sustainable or equitable way of financing social care. The drawdown of reserves among local authorities where social care demand is high, compared to the increase in reserves among local authorities where social care demand is lower, is evidence of this. The Government should consider, in the context of reforms to local government finance—including business rates retention—how social care funding can be allocated in a way that more closely reflects underlying demand and need in different parts of the country.[49]

38. Rain Newton-Smith identified skills and training as an area that should be considered at the Spending Review:

> There is [an] important topic around skills and retraining over the long term, and it was welcome to see in the Budget more flexibility about how the apprenticeship levy is used. […] One of the big challenges for the comprehensive spending review next year is to think very much about the training provided for post-16 education and to make sure that that has high-quality routes for women into a range of occupations.[50]

39. Elsewhere, Mr Johnson pointed out that, notwithstanding the increases to the funding of Universal Credit, further cuts in the welfare system were still planned:

> There are essentially three significant cuts coming through. One is the fourth year of the freeze to benefits. Then, the other two big ones are the abolition of third and subsequent children's support within the welfare system, and a reduction in the family allowance. All welfare recipients with children will be worse off as a result of that, and because these are being introduced in a transitional sense, it will take a few years before they are fully effective.[51]

Since the Budget, the Secretary of State for Work and Pensions has announced the cancellation of the extension of the two-child limit on Universal Credit for children born before April 2017,[52] adding to the evidence that the Government's spending plans remain fluid.

40. **The Chancellor said that the "era of austerity is coming to an end", which he told the Committee meant more generous funding of public services, real wage growth and a lower proportion of income going into taxation. This is an expansive but also**

48 Q173
49 Treasury Committee, Autumn Budget 2017, Fifth report of session 2017–19, 17 January 2019
50 Q94
51 Q117
52 Rt. Hon. Amber Rudd MP, 'Universal Credit: personal welfare', 11 January 2019

imprecise definition. At the next Budget and Comprehensive Spending Review, the Chancellor will have the opportunity to set out his meaning in more measurable terms. This could include, for example, a plan for the overall levels of government revenue and spending as shares of GDP.

41. **This Budget did announce the largest discretionary fiscal loosening since the founding of the OBR, dominated by the NHS funding settlement. However, many decisions await the announcement of the envelope for and allocation of public spending at the Comprehensive Spending Review, when the Chancellor will need to substantiate his claims to be ending austerity.**

Funding current and future spending plans

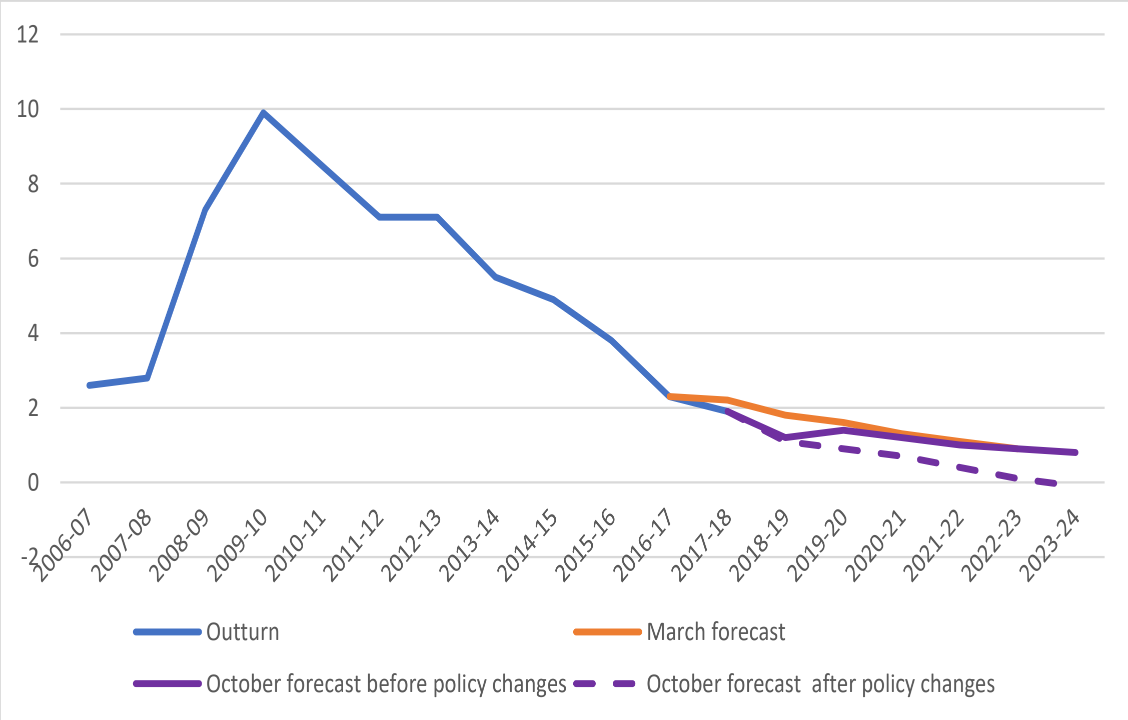
42. The fact that the "largest discretionary fiscal loosening" since 2010 was achieved with little change in the borrowing forecast was helped by large revisions the OBR made to its judgement about the structural level of the tax revenue to GDP ratio. The *Economic and Fiscal Outlook* notes that:

> Cash receipts from the four largest tax streams–PAYE income tax, NICs, onshore corporation tax and VAT receipts–have risen more strongly than expected [so far in 2018–19]. This partly reflects stronger employment growth than we expected in March, although the unexplained residual strength may indicate stronger growth in nominal GDP than is currently being recorded in the National Accounts.
>
> […]
>
> The largest source of improvement [in the underlying borrowing forecast] by 2022–23 reflects our judgement that the strength in tax receipts in 2018–19 will persist over the forecast. In effect, this assumes that the rise in the tax-to-GDP ratio this year is structural, though as noted it may also be the case that nominal GDP is greater than currently recorded.[53]

43. As a result of these and other changes to the underlying economy and fiscal forecasts, the OBR expects PSNB to be between £11.9 billion and £18.1 billion lower each year over 2018–19 and 2022–23 than it did at its March 2018 forecast, before factoring in Government policy changes. Once the latter are included, PSNB is now forecast to be lower than the OBR had expected previously in 2018–19, but roughly unchanged thereafter as the Chancellor spends the forecast improvement.[54]

53 Office for Budget Responsibility, Economic and fiscal outlook October 2018, 29 October 2018, pp. 15–16
54 Office for Budget Responsibility, Economic and fiscal outlook October 2018, 29 October 2018, table 4.35

Figure 5: OBR public sector net borrowing forecasts (per cent of GDP)



Source: Office for Budget Responsibility, Economic & Fiscal Outlook October 2018, chart 1.5

44. Paul Johnson told the Committee that the Chancellor has a tendency to loosen fiscal policy when the OBR decreased the borrowing forecast but not to do the opposite, which could ultimately threaten the stability of the public finances if continued:

> Essentially, the story of the Budget was, at the very highest level, extremely simple: the OBR said there will be something like £18 billion more money knocking around in five years' time and the Chancellor said, "Well I'll take all of that and spend it on the NHS." […] Two or three years ago, when the OBR was downgrading its borrowing forecast, the Chancellor did not say, "Oh, I'd better cut spending or increase taxes to offset it"—he just accepted that. In a sense, there is an upward ratchet if you continue to behave in that way. […]
>
> What happens next? If the OBR gives him some more good news, then in a sense all is well […] But there has to be a one in three chance that the borrowing forecasts go the other way, and then I don't think he is going to un-announce the end of austerity and I don't think he is going to find £10 billion of tax increases, so I think that will just mean borrowing being somewhat higher. […][55]
>
> It is fine in the short run. […] The risk that it runs in the medium run is that debt is falling very, very slowly as a fraction of national income over this period.[56]

55 Q130
56 Q141

45. Indeed, since the Budget, the headline public finances figures have already been affected significantly by the decision of the Office for National Statistics to reclassify part of the student loan book as government expenditure, which will increase PSNB as measured.[57]

46. Following on from Mr Johnson's evidence on the potential fragility of UK debt dynamics and the pressures on public spending, he said that tax increases would likely be needed in future:

> My view is that tax increases over the next decade just will be necessary because the amount we are spending on health is rising very fast. Unless we are willing to accept a very different kind of health service, and depending on social care, pensions and so on, that will continue to rise. If you look at the performance of most other public services, which have genuinely had big cuts over the past seven or eight years, it is not obvious that there is much scope for reducing spending there. […} An alternative is to have a different sort of welfare state, but we do need to have that kind of conversation.[58]

47. In a similar way, Ms Newton-Smith said that "with an ageing population over the long term, we will at some stage need to see an increase in taxation from somewhere."[59] Professor Elson agreed, and suggested that a rethink about the sources of taxation in the UK may be needed:

> In the longer run, the demographic changes are such that there has to be a rise in taxation and some new tax handles—some more creative thinking about what kind of taxes we need to fund the investment in social care that we must have […] If inheritance taxes are off the books, there will have to be some thinking about something like a tax on receipts—a tax on the gifts received.[60]

48. Mr Johnson also discussed the options for any future rises in taxation:

> If you want to raise taxes, you have all sorts of options. Frankly, putting a couple of pennies on the basic rate of income tax isn't going to do a great deal of economic damage. […] You could increase council tax on expensive properties, because they are undertaxed relative to cheaper properties. You could impose national insurance contributions on pensioner earnings and on some pensions in payment, because they have escaped those. You could extend the VAT base. […]
>
> There are also damaging ways of raising taxes. Imposing £20 billion of extra taxes on companies is not a great idea from an economic point of view. You cannot easily get lots more money out of people on high earnings. They are the group that have had by far the highest tax rises over the last 10 years. You can get more money out of accumulated wealth. One thing

57 Office for National Statistics, New treatment of student loans in the public sector finances and national accounts, 17 December 2018
58 Q142
59 Q145
60 Q143

> we have seen is that wealth as a fraction of national income has grown very sharply in the last 20 years, but taxes on wealth have not grown at all over that period.[61]

49. **The Chancellor's record to date has been to loosen fiscal policy when the public borrowing forecast falls, but not to tighten policy when it rises. If continued in the long run, this approach would lead to a ratcheting up of debt levels.**

50. **The Chancellor was fortunate at this Budget, in that the OBR's reassessment of the structural level of the tax revenue to GDP ratio enabled him to fund increased spending plans and some tax cuts without an increase in the borrowing forecast. However, the UK faces risks to its growth outlook, including Brexit and the recent slowdown in the Eurozone,[62] that could lead to less favourable revisions to its growth outlook. More difficult choices will likely lie ahead at future Budgets about the UK tax base, and how to fund the Chancellor's pledge to "end austerity".**

61 QQ166–167
62 Financial Times, Eurozone slowdown fears mount as growth fails to recover in 2018, 31 January 2019

4 The fiscal rules

51. The Charter for Budget Responsibility, which was last updated in Autumn 2016, sets the Government's objective for fiscal policy and its objective for the management of the national debt and its fiscal mandate:

- the **objective** for fiscal policy is to "return the public finances to balance at the earliest possible date in the next Parliament";
- the **mandate** is "to reduce cyclically-adjusted public sector net borrowing to below 2 per cent of GDP by 2020–21;
- the mandate is **supplemented** by "a target for public sector net debt as a percentage of GDP to be falling in 2020–21".[63]

52. The OBR forecasts that the mandate and supplementary target will be met but that the surplus objective will not (although its forecast horizon does not extend far enough to assess the latter definitively).[64]

53. The Committee concluded the following in its report on the Autumn 2017 Budget:

> The Charter for Budget Responsibility is out of date, and the fiscal rules that it sets are consequently open to interpretation. If the Government's objective is now to run a balanced budget by 2025–26, the Charter should be updated to reflect this unambiguously, as a matter of urgency. The Committee recommends it must be updated at the 2018 Spring Statement.
>
> […]
>
> As with its predecessor, the new fiscal rule is judged against a fixed point in time. As a result, to meet the target date, large spending cuts or tax increases may be required as the deadline approaches.
>
> It is unclear why the Government has chosen to target a decline in the net debt to GDP ratio in a single year (2020–21), rather than a continuously falling ratio. The net debt to GDP ratio should be put in a framework that signals the intention to bring about a decline over a consecutive run of years, as was the case in the supplementary debt target in force prior to the Autumn Statement 2016.[65]

54. Since the Charter has not been updated since that report, these observations and criticisms remain valid. Additional developments at the 2018 Budget are discussed below.

Disregard of the fiscal surplus objective

55. In its pre-measures forecast (i.e. before including the impact of policy decisions made since the Spring Statement), the OBR forecast that public borrowing, measured by PSNB, would be in balance in 2023–24, thereby meeting the fiscal surplus objective. However, following the "largest discretionary fiscal loosening [since 2010]" (see chapter 4), the final

63 HM Treasury, Charter for Budget Responsibility: autumn 2016 update, January 2017
64 Office for Budget Responsibility, Economic and fiscal outlook October 2018, 29 October 2018, pp. 209–217
65 Treasury Committee, Autumn Budget 2017, Fifth report of session 2017–19, 17 January 2019

forecast projects a deficit in 2023–24 of 0.8 per cent of GDP (see Figure 5). Moreover, its long-term *Fiscal Sustainability Report* analysis indicates that the deficit will rise beyond that date on current policies.[66]

56. Witnesses to the Committee's Budget inquiry were not especially concerned about the implications for fiscal and economic stability of missing the fiscal surplus objective. Professor Diane Elson said "one of the positive things about the Budget [is that] it gets rid of the idea that it is imperative to have a budget balanced in two or three years' time",[67] and Rain Newton-Smith said that "with the uncertainty we have at the moment, this probably is not a moment to pursue further fiscal tightening".[68] However, Paul Johnson cautioned that "we can afford more borrowing in the short run, but at some point you do have to deal with it."[69]

57. When asked whether the surplus objective had been abandoned, the Chancellor responded:

> No, it hasn't been abandoned. Since the autumn of 2016, I have said that I would operate a balanced approach [...]
>
> The deficit on the OBR's forecast by 2023–24 will be down from almost 10 per cent in the aftermath of the crisis to 0.8 per cent, so we are within touching distance. It will be a policy decision, at successive fiscal events, as to how to balance whatever available fiscal headroom there is between reducing the deficit, reducing taxes, increasing spending on current public service consumption and investing in capital infrastructure for the future.[70]

However, the Chancellor said that running a surplus was not the best way to reduce the national debt:

> We have to get debt down as a percentage of GDP, and there is a very hard way of doing it, which is running a budget surplus every year and paying off the cash debt. There is a much easier way of doing it, which is get the economy growing faster with higher trend productivity growth, so that the denominator increases. That is the smart way to shrink our debt as a proportion of our GDP: grow the GDP, strong real wage growth, rising living standards.[71]

58. **At this Budget, the Chancellor could have met the fiscal objective to reach a balanced budget without further fiscal tightening, but instead he chose a fiscal loosening. Furthermore, the Chancellor told the Committee that securing economic growth was a better way of reducing the public debt-to-GDP ratio than running a budget surplus. Given that the Chancellor both appears to be disregarding the fiscal objective and has told the Committee it is not the best way of reducing the public debt, it is now clear that the fiscal objective now has no credibility, so it cannot be used by**

66 Ibid
67 Q132
68 Q165
69 Q130
70 QQ. 190–191
71 Q204

Parliament to hold the Government to account. The Committee recommends that it be replaced before the next Budget with something that accurately reflects Government policy and priorities, which clearly do not include running a budget surplus.

Fiscal headroom and the 'deal dividend'

59. The fiscal mandate targets cyclically-adjusted PSNB of 2 per cent of GDP in 2020–21, but at every fiscal event since it was introduced, it has been met with significant room to spare. Since the Autumn 2017 Budget, the OBR has forecast that the cyclically-adjusted deficit will be 1.3 per cent of GDP in 2020–21 (£30.1 billion at the October 2018), giving a 0.7 per cent of GDP margin (£15.4 billion) against the target.[72] The Chancellor told the Committee that "I have deliberately preserved […] to the nearest £100 million exactly the headroom that I had in the Spring Statement."[73]

60. The Chancellor referred to this margin as "fiscal headroom" in his Budget speech to the House, and suggested both that it could be spent as part of a "deal dividend" if and when a withdrawal agreement is agreed with the EU, and also should the economy require support around Brexit:

> We are at a pivotal moment in our EU negotiations, and the stakes could not be higher. Get it right, and we will not only protect Britain's jobs, businesses and prosperity, but we will also harvest a double "deal dividend": a boost from the end of uncertainty, and a boost from releasing some of the fiscal headroom that I am holding in reserve at the moment.
>
> […]
>
> I shall today maintain the headroom to my fiscal rules broadly as set out in the spring statement, retaining firepower to intervene if the economy needs more support in the coming months.
>
> […]
>
> We meet our structural borrowing target three years early and deliver borrowing of just 1.3 per cent of GDP in 2020–21, maintaining £15.4 billion headroom against our 2 per cent fiscal rules target.[74]

61. Robert Chote told the Committee that the Chancellor was suggesting that at least some of the margin would be spent in either outcome:

> I think his second definition [of a deal dividend] is, "I have taken the decisions I have taken at the moment, which leave me with £15.4 billion of headroom against my near-term fiscal mandate". There is an environment in which if there is a bad outcome, in which case you might need to spend that in dealing with the consequences, but then if you do not have a bad outcome he could say, "I can spend that on something else". Clearly, both of those end up with more spending […][75]

72 Treasury Committee, Autumn Budget 2017, Fifth report of session 2017–19, 17 January 2019
73 Q3
74 HC Deb, 29 October 2018, v. 648, c. 654
75 Q32

62. In evidence to the Committee, the Chancellor expanded on his plans for this margin in negotiated and non-negotiated Brexit scenarios:

> In the event of a successful negotiated exit deal with the European Union, I would expect confidence to return to the UK economy very quickly. I would expect us to no longer need to hold the kind of level of headroom against meeting our fiscal rule in 2021 […] If we chose to, we could allow borrowing to rise a little and eat into that headroom. […]
>
> If we didn't [have a successful negotiated exit] of course there would be an impact on the economy. […] Working alongside the Bank of England, who would have responsibility for any monetary policy response, we would have to look at what the appropriate fiscal policy response was in the given circumstances.
>
> […] I do not believe now is the appropriate time for reducing that headroom. I very much hope that, by the time we get to the next fiscal event, we will be in a much clearer place with a much greater clarity about Britain's future relationship with the European Union and our future economic prospects. Then, if we deem it appropriate, it will be possible to release some of that headroom.[76]

63. **The Chancellor is maintaining a £15 billion margin against the fiscal mandate in his official spending plans, but he is suggesting that all or part of it will be spent both in orderly and disorderly Brexit scenarios. This means that there is an inconsistency between the spending totals he has submitted to the OBR and those he has described to Parliament.**

76 Q206

5 Tax measures

64. In accordance with its guiding principles for good tax policy, the Committee expects new tax measures to:

- be fair;
- support growth and encourage competition;
- provide certainty;
- provide stability;
- be practicable; and
- provide for a coherent tax system.[77]

65. The Committee asked the Chartered Institute of Taxation (CIOT), the Institute of Chartered Accountants in England and Wales (ICAEW), the Association of Accounting Technicians (AAT) and the Association of Chartered Certified Accountants (ACCA) to assess tax measures announced in Budget 2018 against those six principles. Because of time constraints, the Committee invited the professional bodies to comment on the measures they considered most significant rather than attempt to review all the measures announced.

66. The Committee is grateful for their submissions, which have been published.[78] Their assessments are summarised in Table 2, Appendix A.

67. As for previous fiscal events, there were measures that scored well against the Committee's criteria for good tax policy, but also a significant number that did not. The evidence noted that there had been either no or inadequate consultation on some significant measures including the new Structures and Buildings Allowance and changes to private residence relief. This is disappointing in the context of the Government's ambition for more extensive and open consultation to support the new tax policy-making cycle.

68. The decision to increase the personal allowance to £12,500 and the higher rate threshold to £50,000 a year earlier than originally planned was broadly welcomed. ICAEW and the AAT, however, raised concerns about fairness. ICAEW noted that basic rate taxpayers would expect to be £130 better off as a result of the changes but that Universal Credit claimants would not receive the full benefit. They explained that because Universal Credit is based on net income, those in receipt of £130 more net income would lose Universal Credit at the taper rate of 63 per cent and would therefore only gain £48 overall. The AAT said that the changes would disproportionately benefit higher rate taxpayers and, as approximately three quarters of higher earners benefitting from the increase are male, would also disproportionately benefit men. ACCA saw the changes as a positive development overall. However, they noted that the changes to income tax thresholds emphasised the discontinuity between income tax and National Insurance,

77 Treasury Committee, Eighth Report of Session 2010–11, Principles of tax policy, HC 753, 15 March 2011
78 Institute of Chartered Accountants of England and Wales (B180002), Chartered Institute of Taxation (B180003), Association of Accounting Technicians (B180004), Association of Chartered Certified Accountants (B180005)

noting that from 2019/20 the National Insurance threshold will be £8,632. They argued that in a coherent tax system the thresholds at which income tax and National Insurance is levied would be better aligned.

69. All the professional bodies expressed concerns about changes to off-payroll working in the private sector. The off-payroll working rules (known as IR35) are intended to ensure that individuals who work like employees but provide their services through an intermediary (often their own personal service company) pay similar taxes to employees. In April 2017, the Government introduced new legislation to reduce non-compliance with IR35 in the public sector. This shifted responsibility for assessing how the rules apply to an engagement from the individual to their public sector client. From April 2020, these changes will extend to engagements with large and medium-sized businesses in the private sector.

70. The professional bodies were concerned at the complexity and administrative burden of applying the new off-payroll working rules. ACCA said that they have significant concerns about every aspect of the proposed changes. ICAEW described the changes as "momentous" and called on HMRC to resolve issues identified in the operation of the rules in the public sector before private sector changes are rolled out. The AAT called for businesses to be given time to prepare and said that changes should not be made until there was robust and independent evidence of the effectiveness of the operation of the off-payroll working rules in the public sector. CIOT welcomed the Government's decision, in response to concerns raised during consultation, to limit the changes to large and medium-sized engagers and to delay implementation of the changes to April 2020 to give businesses time to prepare and for HMRC to improve the operation of the existing public sector rules. Both ICAEW and CIOT identified issues around determining employment status as adding to the complexity of the off-payroll working rules. CIOT advocated a public consultation on clarifying the dividing line between employment and self-employment. ICAEW, referring to the Taylor Review of Modern Working Practices published in 2017, said that a national debate is needed to resolve differences in the way that employment status is determined for tax purposes and for employment law purposes.

71. In his Budget speech, the Chancellor announced a new Digital Services Tax which he described as "a narrowly-targeted tax on the UK-generated revenues of specific digital platform business models."[79] The new tax reflects a certain degree of Government frustration at the slow progress of international efforts to reform corporate tax so that it keeps up with changing business models in the digital age. The Chancellor said that, should a globally-agreed solution emerge, the UK would consider adopting it in place of the Digital Services Tax. CIOT welcomed the Chancellor's commitment to continued UK participation in OECD and G20 work to achieve a long-term global solution to taxing digital multinational companies. But they described the Digital Services Tax as a second-best solution that could provoke retaliation from other countries or inspire less narrowly-targeted copycat measures. ACCA raised concerns about an unfavourable international response, particularly from the United States. ICAEW also expressed a preference for a global solution supported by the OECD and the G20, but it understood the Chancellor's decision to act now. In his evidence to this Committee, the Chancellor said that he very much hoped that an international consensus would emerge before 2020 (when the Digital Services Tax is planned to start).[80]

79 HC Deb, 29 October 2018, v. 648, c. 654
80 Q249

72. **There is evidence in some of the new tax measures that the Government has responded positively to issues raised in consultation. However, there are also indications that the consultation process could be used more consistently. A good consultation process, with effective participation from stakeholders including those likely to be directly affected by proposals under consideration, will help new measures meet the Committee's guiding principles for tax policy.**

73. **The Government is consulting on its proposals for a Digital Services Tax while at the same time taking part in international efforts to reform the corporate tax system. It is to be hoped that a global agreement on a fair and sustainable way to tax digital businesses will be reached soon. But, until or unless that happens, it is important that the design of the Digital Services Tax takes account of responses to the consultation and ensures that there is a level playing field between digital and physical businesses.**

6 Equalities impact assessment

74. The Committee concluded the following regarding equalities impact assessments in its report on the Autumn 2017 Budget:

> The Treasury should use ONS and HMRC data to produce and publish robust equalities impact assessments of future Budgets, including the individual tax and welfare measures contained within them. A deficiency of data in respect of some protected characteristics is not a reason for failing to produce an analysis in respect of others for which data is available. Nor should the risk of misinterpretation or methodological complexity preclude the publication of an Equalities Impact Assessment. Details on methodology and guidance on interpretation can be set out alongside the analysis, just as they are with the existing distributional analysis.[81]

75. There have been piecemeal improvements in the coverage of equalities impact assessments in the 2018 Budget. At the Autumn 2017 Budget, qualitative assessments of changes in tobacco products duty rates and a vehicle excise duty supplementary charge for diesel cars were included in the tax information and impact notes (TIINs) within HMRC's Overview of Tax Legislation and Rates.[82] At the 2018 Budget, the TIINs include a quantitative assessment of the increases in the personal allowance and higher rate thresholds ("17.8 million (58 per cent) [of beneficiaries] are male and 12.8 million (42 per cent) are female"), although the extent to which males and females benefit respectively is not enumerated.[83]

76. The Committee asked Diane Elson, who has worked with the Women's Budget Group, what a more detailed of how Budget measures affect men and women differently would entail:

> This is something that has been adopted by a number of Governments around the world, although they do it differently according to the particular circumstances of the countries and the gender equality questions that they want to address. In general, it entails looking at the gender impact of spending and taxation—both individual measures and the cumulative impact—in considering whether the Budget will decrease, leave the same or increase different dimensions of gender inequality, such as the wage gap, the incomes gap, the employment gap, the pensions gap and the unpaid care-giving gap.
>
> What this doesn't mean is taking table 2.1 in the Red Book, which lists all the spending measures and tax measures, and then trying to divide up the spend or the tax for all these measures into what goes to women and what goes to men. That is a sensible thing to do only for certain items, like income tax, but it would not be the approach that many would adopt. […] We are

81 Treasury Committee, Autumn Budget 2017, Fifth report of session 2017–19, 17 January 2019
82 HMRC, Autumn Budget 2017: overview of tax legislation and rates (OOTLAR), 22 November 2017
83 HMRC, Budget 2018: overview of tax legislation and rates (OOTLAR), 29 October 2018

> disappointed that the Treasury has still not produced a comprehensive equalities impact analysis of the Budget, although it has produced an annexe that looks at the impact on households by decile.[84]

77. Professor Elson outlined some of the likely gender-specific impacts of Budget measures, and some of the areas in which the Treasury and HMRC analysis had been deficient:

> Women will particularly benefit […] from increased funding for the national health service, because women, more than men, use the health service. […] Men will definitely benefit more than women from the income tax giveaway. I was able to do some calculations using data from the House of Commons Library […], which show that 63 per cent of the gains from the change to the raising of the threshold in income tax go to men, and 37 per cent to women, in the period 2017–18 to 2021–22. […] [The Treasury and HMRC] done a little bit of analysis [of that], but they didn't publicise that and it didn't make them rethink the measure.
>
> […]
>
> What the Treasury said [about alcohol duties] was, "Due to differences in alcohol consumption, any changes to alcohol duties will have an equalities impact that reflects consumption trends across the adult population." I think that is a bit of a B-minus answer.[85]

78. **There is some improvement in the provision of equalities and gender impact assessments in this Budget, but they fall well short of the "robust […] assessments of future Budgets, including the individual tax and welfare measures contained within them" that the Committee recommended at the last Budget. At the next Budget, there should be quantitative analysis of the equalities impact of individual tax and welfare measures in all cases where data are available.**

84 Q88
85 QQ.89–91

Conclusions and recommendations

The late provisions of policy decisions to the OBR

1. The creation of the independent OBR has led to much higher standards for the forecasting process, and it is important that these do not slip. At this Budget, the Treasury failed to keep to the timetable it had agreed with the OBR at the outset of the forecasting process, with the result that the economy and fiscal forecasts are not fully consistent. The forecasting round had been particularly challenging due to a compressed timetable and relatively large underlying forecast revisions and policy changes. (Paragraph 8)

2. It is not enough to say, as the Chancellor did, that these problems are unlikely to recur since future and policy revisions are unlikely to be as large in future. In fact, the scale of the revisions was not unprecedented even in the short history of the OBR. There is no excuse for the Treasury taking a chaotic approach on timetabling and policy discussions. The Committee expects the Treasury to engage with the OBR on its suggestions for reviewing and improving the forecast timetabling process. The Committee will consider the detail of this review as part of its scrutiny of the 2019 Spring Statement. (Paragraph 9)

3. The forecast the OBR prepares for the 2019 Spring Statement may be the first opportunity it has to make a more detailed assessment of the UK's short-term economic prospects after Brexit than the broad-brush assumptions it has made to date. It will also need to make its usual assessment of the impact of global developments on the UK's growth prospects, on this occasion including the recent slowdown in the Eurozone. It will be even more important than usual that the Government co-operates effectively with the OBR and provides it with the resources and information it needs in a timely fashion. The Committee will seek assurance that it has done so. (Paragraph 10)

The economic outlook and Brexit

4. The Budget includes some policies to support over-indebted households, but the Treasury has once again failed to make an assessment of the overall state of household finances and household savings, and the implications for wider economic stability. This is despite the fact that the OBR forecasts the household cash savings ratio to fall further and into negative territory. It is concerning that the Treasury has no obvious strategy in connection with household finances. The Committee reiterates its recommendation that the Treasury should report on these issues and set out a clear strategy for addressing them at future Budgets. (Paragraph 15)

5. The OBR already assumes in its forecast that the UK makes an orderly transition to its new economic relationship with the EU. Therefore, no "deal dividend" over and above the existing forecast could be attained simply by avoiding a disorderly outcome. Beyond this, there could be some improvement to business confidence and investment following a an orderly transition or a resolution of Brexit-related uncertainty that is not currently forecast by the OBR. It is not credible that this be described as a dividend. (Paragraph 26)

The "end of austerity"

6. The Chancellor said that the "era of austerity is coming to an end", which he told the Committee meant more generous funding of public services, real wage growth and a lower proportion of income going into taxation. This is an expansive but also imprecise definition. At the next Budget and Comprehensive Spending Review, the Chancellor will have the opportunity to set out his meaning in more measurable terms. This could include, for example, a plan for the overall levels of government revenue and spending as shares of GDP. (Paragraph 40)

7. This Budget did announce the largest discretionary fiscal loosening since the founding of the OBR, dominated by the NHS funding settlement. However, many decisions await the announcement of the envelope for and allocation of public spending at the Comprehensive Spending Review, when the Chancellor will need to substantiate his claims to be ending austerity. (Paragraph 41)

8. The Chancellor's record to date has been to loosen fiscal policy when the public borrowing forecast falls, but not to tighten policy when it rises. If continued in the long run, this approach would lead to a ratcheting up of debt levels. (Paragraph 49)

9. The Chancellor was fortunate at this Budget, in that the OBR's reassessment of the structural level of the tax revenue to GDP ratio enabled him to fund increased spending plans and some tax cuts without an increase in the borrowing forecast. However, the UK faces risks to its growth outlook, including Brexit and the recent slowdown in the Eurozone, that could lead to less favourable revisions to its growth outlook. More difficult choices will likely lie ahead at future Budgets about the UK tax base, and how to fund the Chancellor's pledge to "end austerity". (Paragraph 50)

The fiscal rules

10. At this Budget, the Chancellor could have met the fiscal objective to reach a balanced budget without further fiscal tightening, but instead he chose a fiscal loosening. Furthermore, the Chancellor told the Committee that securing economic growth was a better way of reducing the public debt-to-GDP ratio than running a budget surplus. Given that the Chancellor both appears to be disregarding the fiscal objective and has told the Committee it is not the best way of reducing the public debt, it is now clear that the fiscal objective now has no credibility, so it cannot be used by Parliament to hold the Government to account. The Committee recommends that it be replaced before the next Budget with something that accurately reflects Government policy and priorities, which clearly do not include running a budget surplus. (Paragraph 58)

11. The Chancellor is maintaining a £15 billion margin against the fiscal mandate in his official spending plans, but he is suggesting that all or part of it will be spent both in orderly and disorderly Brexit scenarios. This means that there is an inconsistency between the spending totals he has submitted to the OBR and those he has described to Parliament. (Paragraph 63)

Tax measures

12. There is evidence in some of the new tax measures that the Government has responded positively to issues raised in consultation. However, there are also indications that the consultation process could be used more consistently. A good consultation process, with effective participation from stakeholders including those likely to be directly affected by proposals under consideration, will help new measures meet the Committee's guiding principles for tax policy. (Paragraph 72)

13. The Government is consulting on its proposals for a Digital Services Tax while at the same time taking part in international efforts to reform the corporate tax system. It is to be hoped that a global agreement on a fair and sustainable way to tax digital businesses will be reached soon. But, until or unless that happens, it is important that the design of the Digital Services Tax takes account of responses to the consultation and ensures that there is a level playing field between digital and physical businesses. (Paragraph 73)

Equalities impact assessment

14. There is some improvement in the provision of equalities and gender impact assessments in this Budget, but they fall well short of the "robust […] assessments of future Budgets, including the individual tax and welfare measures contained within them" that the Committee recommended at the last Budget. At the next Budget, there should be quantitative analysis of the equalities impact of individual tax and welfare measures in all cases where data are available. (Paragraph 78)

Appendix: Assessments of tax measures from the CIOT, ICAEW, AAT and ACCA

Table 2: Assessment of tax measures in the 2018 Budget

Red Book	Measure description	CIOT	ICAEW	ACCA	AAT
3.7	Personal allowance and higher rate threshold		G	G A	G
3.8	Off-payroll working in the private sector	A	A	R	R
3.9	Taxation of self-funded work-related training		A		R
3.10	Shared occupancy test for rent-a-room relief	G	G		G
3.11	Employment Allowance reform	A	A		
3.12	National Insurance Contributions Bill		A		
3.14	Short Term Business Visitors				G
3.16	Reducing administrative burdens on charities				G A
3.17	Lifetime allowance for pensions				A
3.19	Individual Savings Account (ISA) annual subscription limit				R
3.20	Child Trust Funds				R
3.22	Annual Investment Allowance (AIA)	A	A		R
3.23	Structures and buildings allowance (SBA)	A	A		R
3.24	Capital allowances special rate reduction (8% to 6%)	A	A		A
3.25, 3.77	Entrepreneurs' relief	A	A		R
3.26	Digital services tax (DST)	A	A	A R	A
3.28	Corporate capital loss restriction	A			
3.35 to 3.38	Business rates		A		
3.39	Stamp Duty Land Tax (SDLT) and first-time buyers relief		G		G
3.40	Consultation on SDLT charge for non-residents				G
3.41	Capital gains tax private residence relief	A	A		G
3.56	Plastic packaging				A
3.70	VAT registration threshold	A	A		A

3.72	VAT fraud in labour provision in the construction sector				G
3.74	Alternative method of VAT collection–split payment				A
3.78	Profit fragmentation				G
3.80	Preventing abuse of R&D tax relief for small and medium-sized enterprises		A		A
3.83	VAT Specified Supplies Order				G
3.84, 3.85	VAT: ensuring proper adjustments (unfulfilled supplies/Regulation 38)	A			
3.87	Protecting your taxes in insolvency	A			R
3.88	Tax abuse and insolvency				G
3.89	Conditionality: hidden economy				A
4.48	Apprenticeships: halve co-investment rate		A		
Overview of Tax Legislation and Rates (OOTLAR)					
OOTLAR	Measure Description	CIOT	ICAEW	ACCA	AAT
1.14	Corporation tax (UK property income of non-UK residents)				G
1.23	Diverted Profits tax: amendments				G
1.27	Taxing gains made by non-residents on UK immovable property				G
1.29	Inheritance tax: changes to residence nil rate band				A
1.46	Stamp duty relief for Share Incentive Plans				G
1.48	SDLT Higher Rates–minor amendments				G
1.53	Voluntary tax returns	G			
1.55	Extension of Offshore Time Limits				R
2.5	Legislating the existing tax treatment of expenses for unpaid officeholders				G
2.6	Retail Gift Aid reducing the frequency of letters to donors				A
2.21	Inheritance tax -trusts settlement definition				A
2.32	Landfill Tax rates–2020 to 2021				G
2.37	Fuel duty–main rates and alternative fuels rates		A		A
2.54	Penalties reform	A			

5.30–5.39	Universal credit	G			

Source: Institute of Chartered Accountants of England and Wales (B180002), Chartered Institute of Taxation (B180003), Association of Accounting Technicians (B180004), Association of Chartered Certified Accountants (B180005)

Formal minutes

Tuesday 5 February 2019

Members present:

Nicky Morgan, in the Chair

Rushanara Ali	Alison McGovern
Mr Steve Baker	Catherine McKinnell
Colin Clark	Wes Streeting
Charlie Elphicke	

Draft Report (*Budget 2018*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 78 read and agreed to.

A Paper was appended to the Report as Appendix 1.

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

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

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 6 February at 9.00 a.m.

Witnesses

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

Wednesday 31 October 2018

Robert Chote, Chairman, OBR, **Prof Sir Charles Bean**, Member, Budget Responsibility Committee, **Andy King**, Member, Budget Responsibility Committee — Q1–79

Thursday 1 November 2018

Paul Johnson, Director, IFS, **Rain Newton-Smith**, Chief Economist, CBI, **Professor Diane Elson**, University of Essex — Q80–178

Monday 5 November 2018

Rt Hon Philip Hammond MP, Chancellor of the Exchequer, **Dan York-Smith**, Director for Strategy, Planning and Budget, HM Treasury — Q179–341

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

B18 numbers are generated by the evidence processing system and so may not be complete.

1 AAT (B180004)

2 ACCA (B180005)

3 Chartered Institute of Taxation (B180003)

4 ICAEW (B180002)

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. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	Appointment of Sir Dave Ramsden as Deputy Governor for Markets and Banking at the Bank of England	HC 472
Second Report	Appointment of Professor Silvana Tenreyro to the Bank of England Monetary Policy Committee	HC 471
Third Report	The Solvency II Directive and its impact on the UK Insurance Industry	HC 324 (HC 863)
Fourth Report	Transitional arrangements for exiting the European Union	HC 473 (HC 850)
Fifth Report	Autumn Budget 2017	HC 600 (HC 757)
Sixth Report	Appointment of Elisabeth Stheeman to the Financial Policy Committee	HC 758
Seventh Report	Student Loans	HC 478 (HC 995)
Eighth Report	Appointment of Charles Randell as Chair of the Financial Conduct Authority and the Payment Systems Regulator	HC 838
Ninth Report	Childcare	HC 757 (HC 1196)
Tenth Report	Re-appointment of Alex Brazier to the Financial Policy Committee	HC 936
Eleventh Report	Re-appointment of Donald Kohn to the Financial Policy Committee	HC 937
Twelth Report	Re-appointment of Martin Taylor to the Financial Policy Committee	HC 938
Thirteenth Report	The Motability Scheme	HC 847
Fourteenth Report	Re-appointment for Gertjan Vlieghe to the Monetary Policy Committee	HC 1056
Fifteenth Report	Women in finance	HC 477 (HC 1567)
Sixteenth Report	Appointment of Bradley Fried as Chair of Court, Bank of England	HC 1319
Seventeenth Report	Appointment of Professor Jonathan Haskel to the Monetary Policy Committee	HC 1318
Eighteenth Report	Appointment of Andy King to the Budget Responsibility Committee of the OBR	HC 1340

Nineteenth Report	Household finances: income, saving and debt	HC 565 (HC 1627)
Twentieth Report	Appointment of Jill May to the Prudential Regulation Committee	HC 1511
Twenty-first Report	Appointment of Professor Julia Black to the Prudential Regulation Committee	HC 1512
Twenty-second Report	Crypto-assets	HC 910
Twenty-third Report	Re-appointment of Sir Jon Cunliffe as Deputy Governor for Financial Stability at the Bank of England	HC 1626
Twenty-fourth Report	SME Finance	HC 805
Twenty-fifth Report	The UK's economic relationship with the European Union: The Government's and Bank of England's Withdrawal Agreement analyses	HC 1819
First Special Report	Transitional arrangements for exiting the European Union: Government Response to the Treasury Committee's Fourth Report	HC 850
Second Special Report	The Solvency II Directive and its impact on the UK Insurance Industry: Bank of England Response to the Committee's Third Report of session 2017–19	HC 863
Third Special Report	Autumn Budget 2017: Government and Office for Budget Responsibility responses to the Treasury Committee's Fifth Report	HC 757
Fourth Special Report	Student Loans: Government and Office for National Statistics responses to the Committee's Seventh Report	HC 995
Fifth Special Report	Childcare: Government Response to the Committee's Ninth Report	HC 1196
Sixth Special Report	Women in finance: Government Response to the Committee's Fifteenth Report	HC 1567
Seventh Special Report	Household finances: income, saving and debt: Government Response to the Committee's Nineteenth Report	HC 1627
Eighth Special Report	Government and Financial Conduct Authority Responses to the Committee's Twenty-Second Report: Crypto-assets	HC 1627
Ninth Special Report	Government and Financial Conduct Authority Responses to the Committee's Twenty-Fourth Report: SME Finance	HC 1873