House of Commons
Treasury Committee

Autumn Budget 2017
Fifth Report of Session 2017–19

Report, together with formal minutes relating to the report

Ordered by the House of Commons
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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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Committee reports are published on the Committee's website at www.parliament.uk/treascom and in print by Order of the House.

Evidence relating to this report is published on the inquiry publications page of the Committee’s website.

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The current staff of the Committee are Sarah Rees (Clerk), Peter Stam (Second Clerk), Gavin Thompson, Marcus Wilton and Dan Lee (Senior Economists), Adam Wales (Chief Policy Adviser), George James (Senior Committee Assistant), Nick Berry (Committee Support Assistant), Matt Panteli (Senior Media and Policy Officer), Anne Stark (on secondment from HM Revenue & Customs), Tom Ludlow (on secondment from the Bank of England), Ruthanne Straughan (on secondment from the Financial Conduct Authority), Alexander Knight (on secondment from the National Audit Office) and Mei Jie Wang (on secondment from the Prudential Regulation Authority)

Contacts

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Introduction

1. Ahead of its publication, it was widely reported that the Autumn Budget would address two persistent concerns about the UK economy: low productivity growth and insufficient housing supply. The Chancellor duly identified these problems in his Budget speech, and the Autumn Budget itself contained measures that sought to address them.

2. In the course of its inquiry on the Autumn Budget, the Committee took oral evidence from economists on the causes of weak productivity growth; and it took evidence from housebuilders, housing associations and local authorities on the structural constraints on housing supply, and the Government’s policies to address them.

Productivity

3. Since June 2016 the Government has sought to improve productivity through a series of policies including reducing taxes, improving education opportunities and the creation of the National Productivity Investment Fund (NPIF). In the Autumn Budget the Government updated its productivity plan to include additional investment in research and development for new technologies, further funding for the NPIF and plans to stimulate investment.

4. Despite these measures, the Office for Budget Responsibility (OBR) significantly downgraded its outlook for productivity growth in its forecasts, published alongside the Budget. The OBR expects productivity growth to be 0.7 per cent in 2018 (down from 1.4 per cent in its March 2017 forecast). Over the longer term, productivity growth is expected to be 1.2 per cent by 2022 (down from 1.9 per cent). These were the largest downward revisions to productivity growth in the 17 forecasts that the OBR has produced since its creation in June 2010.

5. The Committee took evidence highlighting that the causes of the UK’s weak productivity performance remain poorly understood, and that, as a result, the proper policy response is not obvious. Despite this, there was a consensus among the witnesses from whom the Committee heard that a greater level of investment would help to improve productivity. While the level of public sector investment in the economy by 2020–21 will reach its highest level as a proportion of GDP for 30 years, the Government has acknowledged that private sector investment has been affected by the current level of uncertainty. The Committee’s conclusions on productivity can be found in paragraphs 26 to 30.

Housing

6. The Autumn Budget announced a target to raise housing supply by 300,000 per year by the end of the Parliament. To achieve the target, the Budget proposed measures to increase the level of financial support for housing, introduce planning to increase the availability of land, provide funding for training a workforce to build new homes, and lifting the Local Authority Housing Revenue Account borrowing caps for “councils in areas of high affordability pressure”.

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1 FT: Budget 2017: 10 things to look for, Sky News: What to look out for, BBC: Budget 2017: Everything you need to know
2 HM Treasury, Autumn Budget 2017, HC 587, November 2017, paragraph 1.2
3 HM Treasury, Autumn Budget 2017, HC 587, November 2017, Paragraph 5.23
7. Despite the policies announced in the Autumn Budget to address insufficient housebuilding, the OBR revised down its forecast for residential investment, which is expected to remain below its pre-financial crisis rate for the five-year forecast horizon.

8. The Committee took evidence that increasing housing supply requires measures to address issues in each sector of the housebuilding market: private builders, local authorities and housing associations. Although the Budget identified some of the principal constraints on housing supply—planning controls, access to land, availability of infrastructure, and access to finance—the measures announced would be unlikely to be sufficient. The Committee’s conclusions on housing can be found in paragraphs 95 to 102.

The inquiry

9. The Committee took evidence on the Autumn Budget during five meetings as follows:

**28 November 2017: Housing experts**

Brian Berry, Chief Executive, Federation of Master Builders; Councillor Nick Forbes, Senior Vice Chair, Local Government Association; and David Orr, Chief Executive, National Housing Federation.

**29 November 2017: Economists and the Institute for Fiscal Studies**

Professor Jagjit Chadha, Director, National Institute of Economic and Social Research; Ann Pettifor, Director, Prime Economics; and Paul Johnson, Director, Institute for Fiscal Studies.

**30 November 2017: Office for Budget Responsibility**

Robert Chote, Chairman, Office for Budget Responsibility; Professor Sir Charles Bean, and Graham Parker CBE, Members, Budget Responsibility Committee.

**5 December 2017: Tax experts**

Andrew Courts, Member, Global Forum for Taxation, Association of Chartered Certified Accountants; Frank Haskew, Head of Tax Faculty, Institute of Chartered Accountants in England and Wales; and Ray McCann, Deputy President, Chartered Institute of Taxation.

**6 December 2017: HM Treasury**

Rt Hon. Philip Hammond MP, Chancellor of the Exchequer; and Clare Lombardelli, Director of Strategy, Planning and Budget, HM Treasury

10. The Committee received written evidence from the Institute of Chartered Accountants in England and Wales (ICAEW), the Chartered Institute of Taxation (CIOT), the Association of Accounting Technicians (AAT) and the Association of Chartered and Certified Accountants (ACCA) for their overall assessments of the tax measures in the Autumn Budget 2017.
1 The Economy: Productivity

OBR Forecast changes

11. In its November 2017 Economic and Fiscal Outlook, the OBR made a major downgrade to its productivity growth assumptions. Potential productivity growth is now forecast to be just 0.7 per cent in 2018, half the rate of 1.4 per cent that the OBR was forecasting at the Spring Budget 2017. The OBR forecast that productivity growth will rise slowly from 2019 to 1.2 per cent in 2022 compared to the Spring Budget forecast of 1.9 per cent in 2022.

12. The trend growth rate of UK labour productivity (output per hour worked) prior to the financial crisis was over two per cent per annum and deviations from this trend were rare and short-lived. However, productivity—as measured by output per hour—fell 2.2 per cent between 2007 and 2009 and has recovered at an average rate of only 0.5 per cent per annum since then. The latest quarterly data, published after the Budget, showed quarterly growth of 0.9 per cent in the third quarter of 2017, a six-year high.

13. Until 2016, the OBR had forecast that productivity would not ‘catch up’ with projected pre-financial crisis productivity growth. However, it did forecast that productivity growth would eventually return to its pre-crisis trend growth rate of 2.2 per cent.

14. At the Autumn Budget, the OBR revised this judgement, and significantly downgraded its productivity growth forecast. Its latest forecast for the future rate of productivity growth now lies “roughly halfway between the pre-crisis [2.2 per cent] and post-crisis [0.4 per cent] averages”.4

Figure 1: Productivity growth (output per hour) forecasts and outturns

Source: OBR Economic and Fiscal Outlook, November 2017, Chart 1.2

4 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9530, November 2017, Paragraph 3.27
15. The OBR notes that “it is important to stress that this revision has been driven neither by the most recent outturns, nor by a detailed re-evaluation of the likely impact of Brexit. Rather it is a response to the repeated tendency throughout the post-crisis period for productivity growth to disappoint relative to expectations”.\(^5\) It adds that “the outlook for potential or trend productivity is the most important, yet most uncertain, element of potential output growth and, indeed, of our forecast in general”.\(^6\)

16. In its forecasts, the OBR lists a number of factors that could be causing the slow growth of productivity:

- **Labour hoarding.** In the early post-crisis period, it seemed plausible that firms might be holding onto labour (at the expense of maintaining productivity) in the face of the temporary extreme weakness in demand and output.

- **Weak investment.** The fall in investment by businesses in physical and intangible assets during and after the financial crisis slowed the pace of capital deepening. The recovery in investment since the crisis has been noticeably weaker than after previous recessions.

- **The state of the financial system.** During and after the crisis, some banks may have been reluctant to acknowledge under-performing loans, even though it might simultaneously have limited their capacity to extend new loans to more promising enterprises. Consequently, the banking system was for a while less efficient in reallocating capital from weak, low productivity firms to strong, high-productivity businesses.

- **Labour market slack.** Following the crisis, there was a lot of spare labour input that firms could employ at a relatively low cost in order to expand output. This put less pressure on firms to use their existing workforce efficiently.

- **Highly accommodative monetary policy.** Although in normal circumstances looser monetary policy could be expected to stimulate investment and productivity growth, the prolonged period of very low interest rates may have slowed productivity growth by making it easier for a tail of highly-indebted, low productivity firms to survive.

- **The possibility that real output growth has been understated, either because new activities—especially those connected with the digital economy—are not properly captured or because price deflators do not fully reflect the impact of new technologies.**

- **Recent employment growth appears to have been skewed towards low productivity jobs and industries.**\(^7\)

17. When asked whether the OBR was being too pessimistic in their productivity assumptions, Professor Jagjit Chadha, Director of the National Institute of Economic and Social Research, told the Committee that “people who have been forecasting a return to

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\(^5\) Office for Budget Responsibility, Economic and Fiscal Outlook, [Cm9530](https://www.gov.uk/government/official-publications/9530), November 2017, Paragraph 3.29

\(^6\) Office for Budget Responsibility, Economic and Fiscal Outlook, [Cm9530](https://www.gov.uk/government/official-publications/9530), November 2017, Paragraph 3.19

\(^7\) Office for Budget Responsibility, Economic and Fiscal Outlook, [Cm9530](https://www.gov.uk/government/official-publications/9530), November 2017, Paragraph 3.22 and 3.23
productivity for the last 10 years have been burnt by the fact that the outturns have been lower than they have seen in the past”. Paul Johnson, Director of the Institute for Fiscal Studies, said that the OBR:

“has basically put a line halfway between what has happened and what it thought before. It is just this judgment: is there any reason to think we are permanently dropping from 2.2 per cent? Perhaps not, but we have had 10 years of 0.3 per cent, so it would seem rather optimistic to assume we will jump straight back up. My take is that [the OBR] has lost patience with its own over-optimism and decided to bring it down […] they are as likely to be on the optimistic as on the pessimistic side.”

18. The OBR’s forecasts also assume that, while trade intensity will fall as a result of the UK’s decision to leave the EU, this will have no knock-on effects on productivity growth. This is in contrast with the Treasury’s economic forecast of Brexit; the Bank of England’s conclusions that “trade openness allows firms to access the most advanced inputs to production, raising their product quality and productivity,” and the views of the Secretary of State for International Trade, Dr Liam Fox, who has said “encouraging trade and inward investment policy is one pillar and is key to opening up markets for UK firms, boosting productivity and growth across our economy”. The OBR states it has made this assumption due to “the lack of certainty around this link [between trade and productivity].”

Government policy response

19. The Autumn Budget lists the Government’s response to persistently weak productivity growth. Previous announcements include:

- cutting taxes to support business investment,
- corporation tax cut from 28 per cent to 19 per cent,
- improving skills through increases in apprenticeships,
- the introduction of T levels, to transform technical education,
- delivering high value infrastructure projects like the Mersey Gateway Bridge, the Northern Hub in Manchester and Crossrail, and
- the National Productivity Investment Fund created at Autumn Statement 2016.
20. Combined with the Government’s Industrial Strategy, the Government’s policies announced at this Budget to improve on productivity performance are focused on the following areas:

- New technologies and innovation,
- Backing innovators and investing in R&D,
- Skills and jobs for a new economy,
- Stimulating long-term business investment and exports,
- Driving stronger competition, and
- Upgrading infrastructure.  

21. The Budget states that “excluding the exceptional years following the financial crisis, public investment as a proportion of GDP will reach its highest level in 30 years by 2020–21”, 2.4 per cent of GDP.  

22. However, the Budget also states that “business investment has been affected by uncertainty” and that “despite the recent revisions, business investment growth remains moderate at 2.5 per cent in the year to Q2 2017, below its average annual rate of 4.9 per cent between 2010 and 2015. Private business surveys cite uncertainty as a factor impeding investment”.  

23. The OBR has forecast for “business investment to rise by around 12 per cent between the first quarter of 2017 and the first quarter of 2022, significantly lower than the 19 per cent expected in March 2017.” These changes are illustrated in the chart below:

![Figure 2: Real business investment as a share of real GDP](chart.png)

OBR Economic and Fiscal Outlook, November 2017, Chart 3.28 extract

17 HM Treasury, Autumn Budget 2017, HC587, November 2017, Paragraph 4.8
18 HM Treasury, Autumn Budget 2017, HC587, November 2017, Paragraph 1.2
19 HM Treasury, Autumn Budget 2017, HC587, November 2017, Paragraph 1.7
24. Investment currently makes up approximately 16 per cent of GDP. The private sector contributed just over half of this investment. This figure does not include private sector housebuilding. If this is also included, the private sector contributes 77 per cent of investment.

25. In November 2016, the OBR revised down its potential productivity forecast “on the grounds that the Brexit vote and the UK’s subsequent departure from the EU were likely to create greater uncertainty over investment returns and that this would lead some firms to cancel or postpone some productivity-enhancing capital investment projects (i.e. a slowing in ‘capital deepening’).”

26. Ann Pettifor, Director, Prime Economics told the Committee that increasing investment in the economy was a key government policy that could increase productivity. Both Paul Johnson and Professor Jagjit Chadha agreed. Professor Chadha stated that “low levels of investment […] probably contributed to the low levels of productivity” but that it is “to some extent the responsibility of government, but it is also the responsibility of the private sector and relates to the impairment of the financial sector […] the Government have a role in dealing with offsetting uncertainty and making plans that offset private sector uncertainty.”

27. In common with many other forecasters, the OBR has been consistently overly optimistic in its forecasts for productivity growth. It has now chosen a path for productivity that lies between the pre- and post-financial crisis trends. Productivity will need to increase to a rate more than twice as fast than has been achieved for the past nine years, if it is to grow in line with the OBR’s forecast.

28. Just as the causes of persistently weak productivity growth in the UK and the rest of the developed world are poorly understood and are widely described as a productivity puzzle, so the optimum policy response from Government is not obviously clear. No one single policy measure in isolation is likely to address the large number of potential causes of the productivity puzzle.

29. A rise in well-focused investment, both public and private, is likely to improve productivity growth in the long term. The Government has set out plans to raise public investment to the highest level, as a percentage of GDP, for the last 30 years. This is a welcome commitment. Nevertheless, a revival in productivity will also require a response from the private sector, which accounts for three-quarters of investment. At the moment, the OBR expects a fall in private sector investment, as a proportion of GDP, over the coming five years, owing to Brexit-related uncertainty. The Committee reiterates its conclusions about the urgency of reaching agreement on transitional arrangements for Brexit that reduce short-term uncertainty for business, and the importance of establishing clarity on the long-term UK-EU economic relationship.

30. As the UK leaves the EU, continued openness to trade, foreign investment and migration are likely to be prerequisites to a revival in productivity performance.

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21 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9530, November 2017, Paragraph 3.20
22 Q79
23 Q79
24 Q79
31. The OBR has stated that the link between trade intensity and increased productivity is insufficiently well understood to be included in its forecast, and as a result has not included any decline in productivity due to reduced trade intensity in its post Brexit forecast. The Committee is concerned as this conclusion stands in contrast to the assumptions made by the Treasury, Bank of England and the Secretary of State for International Trade, that higher trade intensity leads to higher productivity growth. If trade intensity initially declines as a result of Brexit, as is forecast by the OBR, and does lead to a decline in productivity (as is assumed by the Treasury, the Bank of England and the Secretary of State for International Trade) it would significantly worsen the expected economic and fiscal consequences of leaving the EU, compared to what the OBR forecasts at present.
2 The Economy: OBR forecasting alternative scenarios

32. There has been much discussion about the size of the withdrawal settlement that the UK will pay to the EU, and the potential for a post-Brexit fiscal windfall. However, Robert Chote, Chairman of the Office for Budget Responsibility, told the Committee that the long-term impacts of exiting the EU on GDP will likely be far larger, whether positive or negative, than any policy measure within the Budget, including the size of a potential withdrawal settlement:

A one-off payment of some billions of pounds would be dwarfed by the consequences of Brexit, positive or negative, for the long-term outlook for economic growth. There is an analogy here with the time of the financial crisis. It is very easy to get very focused on the one-off or the period of particular bailout payments, whereas what matters much more is the impact on the economy and the underlying impact that has on receipts flows and spending flows.25

33. In its Economic and Fiscal Outlook November 2016, the OBR included a forecast of the impact of the decision to leave the European Union on the public finances, the main assumptions of which it has not updated since. The changes to public borrowing as forecast were summarised under the following headings:

Table 1: Changes to Government borrowing as a result of Brexit

<table>
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<tr>
<th>Area of economic impact and justification for change</th>
<th>Total impact on borrowing over forecast period</th>
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<tr>
<td><strong>Lower migration.</strong> “[The OBR] have used the same migration assumption as in March, so this reverses the improvement that would have been in the counterfactual”.26</td>
<td>+ £16 billion</td>
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<tr>
<td>Specifically, the number of migrants will be 80,000 lower than would have otherwise been the case, reducing economic growth by 0.2 percentage points per year.27</td>
<td></td>
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<td><strong>Lower trend productivity growth.</strong> “This feeds through to weaker growth in earnings, profits and consumer spending, all of which reduce receipts. But it also feeds through to weaker growth in business investment, which boosts receipts by reducing the use of capital allowances. This effect builds steadily over the forecast period”.28</td>
<td>+ £18.1 billion</td>
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<tr>
<td>Specifically, the OBR has revised down cumulative business investment growth by 15 per cent between 2015–2020, a £27 billion reduction29 and decreased trend hourly productivity growth down from two per cent to 1.8 per cent, returning to two per cent over the next decade.30</td>
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25 Q169
26 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9346, November 2016, paragraph 1.32
27 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9346, November 2016, paragraph 3.25
28 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9346, November 2016, paragraph 3.23
29 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9346, November 2016, paragraph 3.24
30 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9346, November 2016, paragraph 3.24
<table>
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<tr>
<th>Area of economic impact and justification for change</th>
<th>Total impact on borrowing over forecast period</th>
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<tr>
<td><strong>The cyclical slowdown in GDP growth.</strong> “This affects borrowing along the same channels as weaker trend productivity growth, but the effect is concentrated at the start of the forecast when we expect a negative output gap to open up”.(^{31})</td>
<td>+ £26.2 billion</td>
</tr>
<tr>
<td>Specifically, the OBR has forecast that GDP will grow by 9.7 per cent over the period, but that this is 2.3 per cent lower than it would have been were it not for the EU referendum.(^{32})</td>
<td></td>
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<tr>
<td><strong>Higher inflation.</strong> “After stripping out the effect of higher dollar oil prices, we [the OBR] assume that most of the remaining upward revision to inflation in this forecast is predominantly referendum-related via the weaker pound. This pushes up borrowing via debt interest, public sector pensions, those elements of welfare spending that are not subject to the uprating freeze, and the cost of indexation in the tax system. That is only partly offset by the boost to excise duties where rates rise with inflation”.(^{33})</td>
<td>+ £10.1 billion</td>
</tr>
<tr>
<td><strong>Lower interest rates.</strong> “This reduces borrowing as the beneficial effect on debt interest spending more than offsets the loss of interest income on government assets”.(^{34})</td>
<td>- £6.3 billion</td>
</tr>
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<td><strong>Other factors.</strong> “These include the fall in the pound, reduced activity in the property market, the effect on debt interest spending of the Bank’s August monetary stimulus package and the strength of the stock market, push the deficit down in most years”.(^{35})</td>
<td>- £5.7 billion</td>
</tr>
<tr>
<td>Total</td>
<td>£58.4 billion</td>
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31 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9346, November 2016, paragraph 1.32
32 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9346, November 2016, paragraph 3.61
33 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9346, November 2016, paragraph 1.32
34 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9346, November 2016, paragraph 1.32
35 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9346, November 2016, paragraph 1.32
34. As part of its November 2016 forecast, the OBR created an analysis of the UK’s future share of global exports over the period up until 2025, shown in the chart below:

**Figure 3: Forecast UK share of world export market share, indexed to 1998**

![Chart showing forecast UK share of world export market share, indexed to 1998.]

Source: OBR Economic and Fiscal Outlook, November 2016, Chart 3.32

35. The chart does not show any significant alteration in trend once the UK leaves the EU.

36. The OBR has not produced an economic forecast incorporating what it forecasts the final end position will be regarding the UK’s economic relationship with the European Union, or the rest of the world. Its forecast states:

   Given the uncertainty regarding how the Government will respond to the choices and trade-offs it faces during the negotiations, we still have no meaningful basis on which to form a judgement as to their final outcome and upon which we can then condition our forecast.\(^{36}\)

37. The OBR is required by legislation to produce its forecasts on the basis of current Government policy (but not necessarily assuming that particular objectives will be met).\(^ {37}\) The OBR was directed towards the Prime Minister’s Florence speech when asking whether any more policy detail existed than was in the public domain. The Government policy within the Florence speech is to achieve a “deep and special partnership with the European Union, and this should span a new economic relationship”.\(^ {38}\)

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\(^ {36}\) Office for Budget Responsibility, Economic and Fiscal Outlook, *Cm9530*, November 2017, Paragraph 3.3

\(^ {37}\) Office for Budget Responsibility, Economic and Fiscal Outlook, *Cm9530*, November 2017, Paragraph 3.2

\(^ {38}\) Foreign & Commonwealth Office, Prime Minister’s Office, 10 Downing Street, Department for Exiting the European Union, ‘PM’s Florence speech: a new era of cooperation and partnership between the UK and the EU’, accessed 17 January 2018
38. The OBR states that “Parliament requires us to base our forecasts solely on the Government’s stated current policies and we therefore do not consider alternative policy paths”. Given these constraints, the OBR has made the following assumptions in its forecast:

- The UK leaves the EU in March 2019—two years after Article 50 was invoked.
- The negotiation of new trading arrangements with the EU and others slows the pace of import and export growth over the 10 years following the referendum. This slowdown is calibrated on the basis of a range of external studies of different possible trade regimes and assumed offsetting impacts from exports and imports on GDP growth.
- The UK adopts a tighter migration regime following departure from the EU than that currently in place, but not sufficiently tight to reduce net inward migration to the desired ‘tens of thousands’.

39. When asked if he would be in favour of the OBR producing an additional forecast of the impact of a Withdrawal Agreement, the Chancellor stated that his understanding that “the OBR's statutory mandate is to produce two reports a year, two forecasts a year”. Section 4 of the Budget Responsibility and National Audit Act 2011 states that the OBR must “on at least two occasions for each financial year, prepare fiscal and economic forecasts”.

40. Section 5 of the Budget Responsibility and National Audit Act 2011 states that “Where any Government policies are relevant to the performance of that duty, the Office—(a) must have regard to those policies, but (b) may not consider what the effect of any alternative policies would be”. The Charter for Budget Responsibility gives the OBR “complete discretion to independently determine the methodology by which the OBR produces its forecasts, assessments and analyses,” and requires the OBR to produce “an analysis of the risks surrounding the economic outlook”.

41. The OBR uses the ONS’ migration forecasts as its input figure for migration in its economic forecast. These forecasts have been consistently above the tens of thousands, which is in contradiction to the Government’s stated policy of reducing migration to the tens of thousands. In its Economic and Fiscal Outlook November 2016, the OBR forecast that the impact of leaving the EU would increase Government borrowing by £58 billion over the forecast period. It has not since revisited this assessment. However, as 2018 progresses, the Committee judges that the ability to revise the November 2016 forecast is likely to be possible and the Committee recommends the OBR does so at the earliest possible opportunity.

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39 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9530, November 2017, Paragraph 2.24
40 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9530, November 2017, Paragraph 3.3
41 Q299
42 Budget Responsibility and National Audit Act 2011, section 4
43 Budget Responsibility and National Audit Act 2011
42. The OBR has stated that it still has no meaningful basis to judge the UK’s final relationship with the EU, on which it can condition its forecast for the economy and the public finances. However, the absence in its forecasts of a step change in trade intensity at the point that the UK is expected to leave the EU (in March 2019) is consistent with a scenario where transitional arrangements are negotiated. The forecasts are not consistent with a reversion to WTO rules in March 2019, which would be likely to lead to a substantial negative trade shock from Q2 2019 onwards.

43. Although no specific attempt has been made to forecast the long-term impact of the UK’s end-state relationship with the EU, Robert Chote has acknowledged that the consequences of Brexit on economic growth, whether positive or negative, are likely to be so substantial as to dwarf the impact of the financial settlement.

44. Parliament will need to be fully informed about the size and the direction of these economic and fiscal impacts before it comes to vote on the legislation giving effect to the withdrawal agreement. The independent OBR is best placed to provide this information. It should publish an economic outlook that incorporates the terms of the Withdrawal Agreement prior to Parliament’s consideration of the planned Withdrawal Agreement and Implementation Bill. If the next scheduled forecasts, due to be published around November 2018, come either too early to incorporate the terms of the Withdrawal Agreement, or too late for Parliament’s consideration of the Bill, the OBR should prepare a special forecast. The legislation setting out the OBR’s statutory responsibilities requires the OBR to publish a minimum of two forecasts a year, but does not set an upper limit.
3 The fiscal rules

The existing fiscal mandate for borrowing

45. The Autumn Statement 2016 update to the Charter for Budget Responsibility states that the objective of the Government’s fiscal policy is to “return the public finances to balance at the earliest possible date in the next Parliament”. Since the 2016 Autumn Statement, there has been a further general election, but the Charter has not been updated. Therefore, the objective in the Charter is open to interpretation as to which “Parliament” is being referred to: the current Parliament (2017–22), or the Parliament that would have been had an election not occurred (2020–25). The 2017 Conservative Manifesto included the commitment to “balance the budget by the middle of the next decade”, a position reiterated in the Chancellor’s Mansion House speech in June 2017.

46. In its forecasts, the OBR has assessed the likelihood of meeting the objective according to both interpretations. If the objective applies to the current Parliament, the OBR judges that it is likely to be missed. The OBR’s forecast horizon does not extend to 2025, but it judges that meeting the objective would be “challenging” even over this longer timescale.

47. In order to achieve its objective, the Treasury’s “fiscal mandate in this Parliament is a target to reduce cyclically-adjusted public sector net borrowing to below 2 per cent of GDP by 2020–21”. Similarly to the overall objective, the Charter refers to a Parliament that was dissolved in 2017, and is therefore out of date.

Justification for having a fiscal mandate

48. There have been over a dozen fiscal rules since 1997, only two of which have definitively been met. The rules can be summarised these rules as follows:

Table 2: Fiscal rules since 1997

<table>
<thead>
<tr>
<th>Fiscal target</th>
<th>Dates in operation</th>
<th>Target requirements</th>
<th>Rule met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainable investment rule</td>
<td>1997–2009</td>
<td>Net debt under 40 per cent of GDP over the economic cycle</td>
<td>No. Abandoned due to financial crisis.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Net debt falling as a percentage GDP in 2015–16</td>
<td>No.</td>
</tr>
</tbody>
</table>

49 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9530, November 2017, Paragraph 5.17
<table>
<thead>
<tr>
<th>Fiscal target</th>
<th>Dates in operation</th>
<th>Target requirements</th>
<th>Rule met?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coalition</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiscal mandate (1)</td>
<td>2010–2014</td>
<td>Cyclically-adjusted current budget balance 5 years out (rolling target)</td>
<td>Yes.</td>
</tr>
<tr>
<td>Fiscal mandate (2)</td>
<td>2014–2015</td>
<td>Cyclically-adjusted current budget balance 3 years out (rolling target)</td>
<td>Yes.</td>
</tr>
<tr>
<td>Supplementary debt target (2)</td>
<td>2014–2015</td>
<td>Debt falling as a percentage of national income between 2015–16 and 2016–17</td>
<td>Not yet known. March Budget forecast implied yes, our update implies no.</td>
</tr>
<tr>
<td>Welfare cap</td>
<td>2014–</td>
<td>Cap welfare spending at a level set by the Treasury for every year of the five year forecast</td>
<td>No. Breached since November 2015.</td>
</tr>
<tr>
<td><strong>Conservative</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiscal mandate (3)</td>
<td>2015–2016</td>
<td>Surplus in 2019–20, and every subsequent year if growth remains above one per cent</td>
<td>Not yet known. Abandoned after referendum.</td>
</tr>
<tr>
<td>Fiscal mandate (4)</td>
<td>2016–</td>
<td>Structural deficit of two per cent by 2020–21</td>
<td>Not yet known.</td>
</tr>
<tr>
<td>Objective for fiscal policy</td>
<td></td>
<td>Budget surplus by middle of next decade</td>
<td></td>
</tr>
<tr>
<td>Supplementary debt target (4)</td>
<td></td>
<td>National debt falling as a proportion of GDP in 2020–21.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Institute for Fiscal Studies, ‘Winter is Coming: The outlook for the public finances in the 2016 Autumn Statement’, November 2016, Table 5.1. Numbers in brackets indicate later iterations of rules with the same name.

49. Given the regularity with which fiscal rules have been broken over the past two decades, the Committee has previously taken evidence from witnesses as to whether fiscal rules had ceased to be of any benefit for fiscal credibility. There was a broad consensus that fiscal rules are desirable, but that the setting of rules and then abandoning them was damaging. Professor Philip Booth of St. Mary’s University, said:

[he would] rather have a weak framework, than a rule that was either not credible or not adhered to. The worst thing that you can do is to build up a situation where you are getting the benefits of credibility by having a strong rule, then break the rule.⁵¹
50. Jonathan Portes, Research Fellow, National Institute of Economic and Social Research, agreed with this view, saying:

[...] one of the points of a fiscal rule is to constrain what the Government do and improve the Government’s credibility, both with financial markets and economic agents in the wider economy.\(^52\)

**Assessment of the borrowing target**

51. The fiscal target for borrowing is adjusted depending on the business cycle. Professor Jagjit Chadha was critical of targets that are cyclically-adjusted. He said:

> The rules themselves, in terms of having a cyclically-adjusted deficit target, are bordering on the ridiculous. Nobody is able to measure the business cycle in real time and tell you whether the economy is at trend, below trend or above trend; to have a cyclically adjusted deficit target therefore is a complete nonsense. It is not something that makes sense in any way whatsoever. If you want a target for the deficit, the Government should aim for a balance on the primary account before interest is paid. That is something that does not get adjusted because of the business cycle, and is something that is clearly measurable in terms of cash.\(^53\)

52. As part of the Autumn Budget, the Government announced a delay in the implementation of a shorter payment window for Capital Gains Tax (CGT), from April 2019 to April 2020. In its forecast, the OBR explained that this policy change would delay the temporary £1 billion boost to the public finances generated from 2019–20 to 2020–21. The OBR points out that this change is beneficial to the Government meeting its fiscal target in 2020–21, and that when the policy was initially announced in 2015, it benefited the public finances in 2019–20, which at the that time was also the year of the fiscal target:

> The net effect of the Budget measures boosts receipts in only one year: 2020–21, the year in which the Government’s main fiscal target applies. […] reflecting the decision to delay the introduction of the ‘CGT payment window’ by a year from 2019–20 to 2020–21. This flatters receipts in one year only by bringing forward the timing of payments. It was introduced in Autumn Statement 2015, boosting receipts in 2019–20; the fiscal target year then was 2019–20.\(^54\)

53. The Chancellor told the Committee he had delayed the implementation of the CGT 30-day window to “create a smooth pathway and manage the overall fiscal picture”\(^55\) but that he did not think £1.3 billion was “very big” and it was “purely a timing issue”.\(^56\)

54. Despite a chequered history, a well-designed fiscal rule can add something to the credibility of fiscal policy in the eyes of markets and the public. But with each rule that is abandoned, the task of maintaining credibility is made more difficult.
55. 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.

56. To maintain the credibility of fiscal policy, the design and timing of policies should primarily be focused on achieving policy objectives and improving the public finances, rather than meeting fiscal target deadlines. The implementation of a 30-day window for paying Capital Gains Tax appears to be delayed in order to create a one-off windfall to the public finances in the year of the fiscal target. Using the fiscal rules in this way risks damaging the credibility of fiscal policy, the very thing that the rules are designed to protect.

57. 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 target deadline approaches.

**Net Debt Target**

58. The Government has set a target “for public sector net debt as a percentage of GDP to be falling in 2020–21.”

59. Prior to the Autumn Statement 2016, the target was “for public sector net debt as a percentage of GDP to be falling in each year.” The net debt target only applies to one specific financial year, 2020–21, the same year when the repayments within the Bank of England’s Term Funding Scheme (TFS) will begin.

60. In 2016, the former Committee asked Carl Emmerson, Deputy Director, Institute of Fiscal Studies, for his view of the interaction between the TFS and the net debt target. He said:

> It is an unfortunate thing that the Government’s target looks at the measure of debt, which includes the Bank of England effect. It would be better to exclude it for two reasons. First, they have picked a target that should fall in 2020–21, which happens to be just when the financial sector will hopefully—touch wood—be paying back those loans, so the measure of debt will naturally fall very sharply in that year, so it is quite an easy target to meet. Secondly, it is odd to include a target for something that can be affected by things; supposing the MPC decided to do more of this in 2019, say. It would make this target very difficult to meet for reasons that are not really about the total indebtedness of the public sector. It would be better to target a measure of debt that does not have this feature.

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59. The Term Funding Scheme allows financial institutions to borrow from the Bank, against eligible collateral, for a term of four years. According to the Bank, the purpose of the scheme is to “reinforce the transmission of Bank Rate cuts to those interest rates actually faced by households and businesses” (Bank of England Market Notice, 4 August 2016: Asset Purchase Facility: Term Funding Scheme)
60. Oral evidence taken on 29 November 2016, HC 837 (2016–17), Q9
61. 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.

62. There is a strong case for excluding the Bank of England Term Funding Scheme (TFS) from the net debt ratio target. This is because the repayment of the TFS in 2020–21 produces a material one-off change to the net debt ratio. This change happens independently of Government policy and distorts the underlying trend, which makes the target easier to meet in the Government’s chosen year.
4 Government spending on preparation for Brexit, and the financial settlement with the European Union

Preparation for Brexit

63. In his Autumn Budget speech, the Chancellor addressed how much spending would be necessary to prepare for leaving the European Union saying:

While we work to achieve this deep and special partnership [with the EU] we are determined to ensure that the country is prepared for every possible outcome. We have already invested almost £700 million in Brexit preparations. And today I am setting aside over the next two years another £3 billion. And I stand ready to allocate further sums if and when needed.  

64. The Chancellor previously told the Committee in October that:

the money that is required to be expended against the contingency of a no-deal scenario will come from the reserve, so we will not reopen departmental spending settlements.

65. The Committee asked Robert Chote whether the £3 billion of spending announced would require the reopening of departmental spending plans. Mr Chote said:

The overall RDEL limits have been increased. You can think of this like a reserve on the grounds that, as far as I am aware, this has not been allocated to departments. You can think of this as having created a £3 billion Brexit reserve that you are then going to spend in the departments that you think need it, for the purposes for which they need it.

Paul Johnson told the Committee that over the two years “it is clearly in the Budget measures here as an additional £1.5 billion per year on top of what was previously planned […] it makes the borrowing £1.5 billion more than it otherwise would have been.”

66. The Committee asked the Chancellor whether the £3 billion would be financed from the reserves or whether it was new money, the Chancellor stated that:

I allocated an additional £3 billion to provide for additional expenses that departments will or may incur over the next two years […] It is an allocation that we have made in the Budget. It is fully scored in the Budget arithmetic.

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61 HC Debate, 22 November 2017, col 1047 [Commons Chamber]
62 Oral evidence taken 11 October 2017, HC424 (2017–19), Q4
63 Q173
64 Q95
65 Q311
66 Q312
67. HM Treasury has not yet identified what this additional money will be spent on. When asked how the figure of £3 billion had been chosen, the Chancellor said it was an estimate:

   It is based on a preliminary assessment of departmental estimated expenditure required during the process, but, as I made clear at the dispatch box during the Budget speech, if it is not enough, if we find that we need more funding, we will make it available as a priority.67

68. The Chancellor announced an additional £3 billion of spending on preparing for Brexit in the Government’s policy scorecard. This additional spending will be funded from increased Government borrowing rather than being allocated from existing resources.

69. The Chancellor has acknowledged that additional spending—and borrowing—on top of this £3 billion may be needed as the country prepares for all possible Brexit eventualities.

European Union withdrawal settlement

70. As part of its Economic and Fiscal Outlook the OBR has assumed that the UK leaves the EU in March 2019, at which point any reductions in the UK’s net expenditure transfers to the EU would be fully recycled into extra domestic spending. The OBR state this recycled spending could be spent in the following ways:68

   • any additional spending to meet other domestic spending priorities,
   • any payments made to private or public sector recipients to compensate them for the loss of EU funding, and
   • any payments made to the EU after the UK exits, if the Government agreed to make such payments. For instance, the Government’s February white paper stated that “There may be European programmes in which we might want to participate. If so, it is reasonable that we should make an appropriate contribution”.69

71. The OBR’s November 2017 Economic and Fiscal Outlook also states that “No allowance for any one-off or ongoing EU Exit-related payments—the ‘divorce settlement’—can be made until more information becomes available.”70

72. When asked by the Liaison Committee about whether the OBR had taken the correct approach in forecasting payments relating to Brexit considering the Withdrawal Agreement reached with the EU, the Prime Minister said that:

   It is not the case that these sums of money are additional to that budget forecast because they are baked in. The OBR has already baked in payments.71

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67 Q313
68 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9530, November 2017, Paragraph 4.6
69 HM Government, The United Kingdom’s exit from and new partnership with the European Union, Cm9417, February 2017, para 8.51
70 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9530, November 2017, Paragraph 4.6
71 Oral evidence taken before the Liaison Committee on 20 December 2017, HC (2017–19) 637, Q10
73. The Chief Secretary to the Treasury was also asked about the OBR’s treatment of the withdrawal settlement in its forecast and said “the OBR has made predictions on EU payments and those are included in the Budget”.72

74. The OBR has highlighted the uncertainty around the size and timing of the “divorce bill” in its Fiscal Risks Report:

there is huge uncertainty over the size and timing of any payment that the UK might agree to make as part of the Brexit negotiations. The Government’s manifesto stated that it would “determine a fair settlement of the UK’s rights and obligations as a departing member state, in accordance with the law and in the spirit of the UK’s continuing partnership with the EU.” The European Commission’s ‘Essential principles on financial settlement’ working paper argues for a single financial settlement related to the EU budget, termination of membership of all EU bodies and institutions and the UK’s participation in specific funds and facilities related to EU policies. Commentators have cited figures for the possible divorce bill that vary widely, with some estimates as high as €60 billion73 or even €75 billion74 (both on a net basis). Any amount that was agreed could be paid upfront or spread over a number of years.75

75. Members of the Government have repeatedly stated that the OBR has included the UK’s financial settlement with the EU within its November 2017 forecast. This is not supported by the OBR’s Outlook. The OBR has assumed that the UK’s contributions to the EU budget are ‘recycled’ into domestic spending after March 2019, but it makes no judgement about the purpose to which these funds are deployed. The impact of the financial settlement on the public finances will depend on its size and the schedule of payments, neither of which are known at this point. It will also depend on the purposes to which the settlement is deployed. Until the final payments and scheduling are agreed, the Government cannot assume there will be additional money available for domestic spending.

76. While the size of the exit payment is likely to be significant, the Committee notes Robert Chote’s evidence that the impact of any one-off divorce bill on the public finances is likely to be dwarfed by the consequences of Brexit, positive or negative, for the long-term outlook for economic growth.

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72 HC Deb, 29 November 2017, col 335
73 Centre for European Reform, The €60 billion Brexit bill: How to disentangle Britain from the EU budget, February 2017
74 Financial Times, ‘Brussels hoists gross Brexit ‘bill’ to €100bn’ (3 May 2017), accessed 17 January 2018
75 Office for Budget Responsibility, Fiscal Risks Report, Cm9459, July 2017, Paragraph 6.182
5 Stamp Duty and housing measures

Stamp Duty

77. In the Autumn Budget, the Chancellor abolished Stamp Duty Land Tax (SDLT) for first-time buyers (FTBs) on the first £300,000 of any property costing up to £500,000. For a property costing £300,000, the measure will save a FTB £5,000 in Stamp Duty. For houses above £500,000, there will be no SDLT relief at all.

78. A similar policy, known as the “Stamp Duty Holiday” existed between 25 March 2010 and 24 March 2012, first introduced by the then Chancellor, Alistair Darling76. Under the Stamp Duty Holiday, the one per cent rate of SDLT liable on the value of a property between £125,001 and £250,001 was waived, saving FTB a maximum of £1,250 in SDLT. The Coalition Agreement committed to review the effectiveness of the relief.77 The criteria for the review were the impact of the Stamp Duty Holiday on affordability and value for money, as set out in the June 2010 Budget.78 HMRC carried out the review and found that the SDLT holiday had not had a significant impact on the outcomes for FTB as intended:

The analysis concludes that the tax relief has not had a significant impact on improving affordability for first-time buyers. It is estimated that most of the people who benefitted would have purchased property in the absence of the relief anyway. First-time buyer transactions are estimated to be around zero to two per cent higher than they would have been in the absence of the relief after controlling for wider economic and credit conditions.79

As a result of this review, the Coalition Government abandoned the Stamp Duty Holiday.

79. In its November 2017 Economic and Fiscal Outlook, the OBR analysed the reduction in SDLT and forecast that it would increase prices by 0.3 per cent. However, Robert Chote told the Committee that the 0.3 per cent figure was “the average effect across all houses. The effect on the prices of those that are transacted by first-time buyers is greater than that, but obviously the vast majority of housing transactions do not involve first-time buyers”.80 The OBR's forecast stated the reason for the increase in house prices was because the extra up front money available to FTBs would pass through quickly:

The effect of this reduction in future SDLT costs would be expected to feed through into house prices—to be ‘capitalised’—relatively quickly. Since the relief frees up FTBs’ savings to put towards higher deposits, these higher prices can be paid […] We assume that a temporary relief would feed one-for-one into house prices, but a permanent one will have twice that effect. On this basis, post-SDLT prices paid by FTBs would actually be higher with the relief than without it. Thus, the main gainers from the policy are people who already own property, not the FTBs themselves.81

78 HM Treasury, Autumn Budget 2010, HC61, June 2010, Paragraph 2.66
80 Q226
81 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9530, November 2017, Box 4.3
80. Paul Johnson disputed whether an increase in the prices for FTB alongside a reduction in SDLT meant FTB were worse off. He said:

Stamp duty cuts do lead to price rises. The price rise can be bigger than the duty cut in part because of the leverage effect—if I pay £1 less in stamp duty I can put down £1 more deposit, meaning I can obtain a larger mortgage. So the £1 cut allows me to spend more than £1 more on a house. But this does not mean first-time buyers are worse off as a result. They are in general better off. Instead of paying, say, £100,000 for £98,000 worth of house plus £2,000 of tax they might be paying £102,000 for £102,000 worth of house. That’s a better outcome for them.\(^\text{82}\)

81. The OBR acknowledge that the removal of SDLT will allow some FTBs to be able to gain access to mortgages that they otherwise would not have been able to afford:

For some potential FTBs with smaller deposits, who are constrained by loan-to-value lending criteria, the relief will enable them to borrow a multiple of their SDLT saving, allowing them to buy properties that they otherwise could not afford—but more expensively.\(^\text{83}\)

The OBR estimate an additional 3,500 FTBs will purchase houses who otherwise would not have.\(^\text{84}\)

82. The issue of affordability was highlighted by the Chancellor in his Budget speech:

One of the biggest challenges facing young first-time buyers is the cash required up front. […] I’ve received representations for a temporary stamp duty holiday to first-time buyers. But that would only help those ready to purchase now. And would offer nothing for the many who will need to save for years […] We have put £10 billion more money into Help to Buy equity loan to help those saving for a deposit. But I want to do more still. So, with effect from today, for all first-time buyer purchases up to £300,000, I am abolishing stamp duty altogether. […] A stamp duty cut for 95 per cent of all first-time buyers who pay stamp duty. And no stamp duty at all for 80 per cent of first-time buyers from today.\(^\text{85}\)

83. The exclusion of property that cost more than £500,000 from the SDLT relief creates a cliff edge in SDLT liabilities. A property costing £500,000 will attract £10,000 in SDLT, but a house costing one additional pound will attract £15,000, as demonstrated in the chart below:

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83  Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9530, November 2017, Box 4.3
84  Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9530, November 2017, Paragraph A.12
Other housing measures

84. The Autumn Budget set out the ambition to increase housing supply to reach 300,000\(^86\) per year by the end of this Parliament through the following measures:

- making available £15.3 billion of new financial support for housing over the next five years, bringing total support for housing to at least £44 billion over this period,
- introducing planning reforms that will ensure more land is available for housing, and that better use is made of underused land in our cities and towns, and
- providing £204 million of funding for innovation and skills in the construction sector, including to train a workforce to build new homes.\(^87\)

85. In addition, the Budget announced the lifting of the Local Authority Housing Revenue Account borrowing caps for:

- councils in areas of high affordability pressure, so they can build more council homes. Local authorities will be invited to bid for increases in their caps from 2019–20, up to a total of £1 billion by the end of 2021–22. The Government will monitor how authorities respond to this opportunity, and consider whether any further action is needed.\(^88\)

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\(^{86}\) The 300,000 target is an England only target. Housing is a devolved policy.

\(^{87}\) HM Treasury, Autumn Budget 2017, HC587, November 2017, Paragraph 5.4

\(^{88}\) HM Treasury, Autumn Budget 2017, HC587, November 2017, Paragraph 5.23
While the Budget document stated the bidding process will aimed at areas with high affordability pressure, the Chancellor stated in his speech that the bidding process will be aimed at councils in “high demand areas.”

86. The OBR revised down its forecast for residential investment in its Economic and Fiscal Outlook despite the Government’s policy announcements:

We expect relatively subdued growth in residential investment over the forecast period. Near-term growth in housebuilding is expected to slow due to low turnover in the housing market and modestly higher interest rates. Residential investment is expected to grow more slowly than in March due to the downward revisions we have made to our house price and transaction forecasts. As a share of GDP, total private residential investment is expected to remain below its pre-crisis peak throughout the forecast period.

87. Data from the ONS (see chart below) shows that the UK has not succeeded in building 300,000 houses in a single year since 1977. Between the period 1953–1977, the UK consistently completed over 300,000 tenures per year. During this period, local authorities were on average constructing 156,000 tenures per year, privately constructed tenures numbered on average 165,000 per year, with housing associations completing 13,000 tenures per year. Since that period, privately constructed tenures have consistently averaged around 150,000 constructions per year with housing associations averaging 24,000 per year. For the last 30 years, local authority constructed tenures have averaged 4,000 per year.

Figure 5: Level of housebuilding by sector

Source: Office for National Statistics: Table 241, House building: UK permanent dwellings completed, by tenure

90 Office for Budget Responsibility, Economic and Fiscal Outlook, Cm9530, November 2017, p 3.104
88. Nick Forbes, Senior Vice Chair, Local Government Association, told the Committee that the only time the UK came close to building 300,000 houses local authorities contributed significantly:

The last time we [the UK] built more than 250,000 homes, councils built 40 per cent of them. The 300,000 target will only be achieved if councils are allowed to get on and deliver the homes that we want to deliver but cannot because of the constraints upon the way that the system works at the moment.91

89. At present local authorities are limited in how much they can build through the cap on borrowing within Local Authority Housing Revenue Accounts. Nick Forbes did not think the increases in local authority borrowing announced in the Budget were sufficient. He told the Committee:

Rather than having a competitive process, it is better to lift the borrowing cap for all local authorities, so that we can all get on and take the decisions that are in the interests of our respective communities. We have a situation where most of the HRAs for local authorities are operating within 10 per cent or 20 per cent of their cap, so the flexibility to manoeuvre is very limited.92

90. In addition to criticising not allowing all local authorities to increase their Housing Revenue Account borrowing caps, Nick Forbes also expressed concern about the timescale and the use of a bidding process to allocate money to local authorities based on “areas of high affordability pressure”:

there was a slight disparity in the announcement that the Chancellor made and the language in the Budget book, because areas of low affordability are not necessarily areas of high demand. It is possible to have high demand in areas of high affordability93 […] we could do more and faster, if we were allowed to get on with it sooner.94

91. Brian Berry, Chief Executive, Federation of Master Builders, told the Committee that the reduction of small housebuilders in the market had reduced construction levels:

SME housebuilders have, over the last 25 years, been effectively squeezed out. In the late 1980s, two thirds of all new homes were built by SME housebuilders. Last year that had fallen to 23 per cent so, if we are going to get the numbers up, we need to revitalise and overcome the barriers that SME housebuilders face. There are three major barriers: access to land, access to finance and the complexities of the planning system. […] The measures that were announced in the Budget were a welcome step, but the Secretary of State for Communities and Local Government himself was starting to talk...
about a £50 billion investment in housing over the next period. £1 billion for HRAs and £8 billion in total go some way towards that, but it is not necessarily going to meet the scale of the challenge that we face.  

92. David Orr Chief Executive, National Housing Federation, told the Committee there were “no silver bullets” to increase housing supply quickly. When asked whether the measures announced in the Budget actually did much to address the issues that are of fundamental importance to unlock more housing being built in the UK, Mr Orr said that the Budget:

identified all the important issues but did not quite do the things that we need to see done.  

93. The changes to Stamp Duty Land Tax (SDLT) in the Budget helps first-time buyers by reducing the sum of money needed to save to purchase a house. However, the OBR forecasts that just 3,500 additional first-time buyers over the forecast period will enter the market as a result of the policy change, at a cost of £3.2 billion. There needs to be a step change to helping first-time buyers purchase a home. 

94. The OBR forecasts that a permanent reduction in SDLT in isolation will increase the affected first-time buyer house prices by double the reduction in SDLT. The previous ‘Stamp Duty Holiday’, which was in operation from March 2010 to March 2012, was found by HMRC not to have increased affordability, and to have resulted in an increase in the number of first-time buyers of “between zero and two per cent”. 

95. The new SDLT schedule creates a cliff edge at the £500,000 price point, which will create distortions to the housing market. A house worth £500,000 will attract £5,000 less in SDLT than a house worth £500,001. When the previous Government redesigned SDLT to remove ‘cliff edges’ faced at certain property values, the then Chancellor said that he had reformed a “badly designed system that has distorted our housing market for decades”. It is regrettable that the abolition of SDLT for first-time buyers reintroduces a cliff edge into the SDLT schedule. 

96. The eligibility for SDLT relief for first-time buyers being extended to houses worth up to £500,000 recognises that previous measures aimed at first-time buyers such as the Help-to-Buy ISA (which were capped at £450,000) excluded some parts of the country. The Committee notes such a recognition. 

97. The only sustainable way to address housing market affordability, both for first-time buyers and other households, including those in the rental sector, is to significantly increase the supply of new housing. The Autumn Budget alone is unlikely to achieve this. 

98. Despite the Government’s latest housing announcements, the OBR has reduced its residential investment forecast since the Spring Budget. Residential investment is forecast to remain below levels prevailing prior to the financial crisis, a period when housebuilding was considerably below the Government’s new target.
99. Over the past 60 years, private housebuilders have consistently provided around 150,000 units per year. Given this historical record, it is unlikely that the Government's target of 300,000 new homes per year will be met without a significant increase in the supply of units provided, either directly or indirectly, by local authorities and by housing associations.

100. The decision in the Budget to raise the Housing Revenue Account borrowing cap by £1 billion is a positive step. However, in order to increase Local Authority construction to levels sufficient to meet the Government’s 300,000 target, the Housing Revenue Account borrowing cap should be removed. Raising the cap would have no material impact on the national debt, but could result in a substantial increase in the supply of housing, allowing local authorities to determine the level of additional housing needed in their area.

101. The bidding process proposed by the Treasury to allocate the additional £1 billion of local authority housing revenue borrowing may not direct resources to areas of greatest housing need. The criteria for allocation are currently unclear. The Chancellor stated in his speech that the bidding process will be aimed at “high demand areas” but the Budget itself referred to “areas with high affordability pressure”. The Treasury should establish clearly defined, needs-based criteria for allocating the additional borrowing.

102. Greater measures are needed to increase housing supply. 300,000 homes a year will not be achieved with the current measures. The Government will need to show greater commitment to housing supply to achieve its aspiration and will need to bring forward additional policy measures.
6 Distributional analysis

103. Starting with its first Budget in June 2010, the Coalition Government published a “distributional analysis” showing the impact of changes to tax and welfare spending on household incomes at different points in the income distribution.

104. By the end of the Coalition Government, this income-based distributional analysis had become part of the standard Budget documentation. In March 2015, it was described by the then Chancellor George Osborne as being “a step change in the transparency of policy making”, and “the most comprehensive and robust assessment available of [how] the decisions we have made […] have affected families”.98

105. The analysis was discontinued in the Summer Budget of July 2015, but was reinstated following pressure from the Treasury Committee in the Autumn Statement 2016.99,100

106. Since coming to office, the Chancellor has rebased the distributional analysis so that it reflects only measures announced since the Autumn Statement 2016. Consequentially the changes to Universal Credit announced in the Summer Budget 2015, are not included in the distributional analysis, even though these changes have not fully taken effect. The analysis shows that, other than the highest income decile, each income decile is better off as a result of measures announced since the Autumn Statement 2016.

107. Government distributional analysis only includes policies that have been confirmed and announced. Other policy measures that may have been publicised, but have not yet been confirmed, are not included in the analysis. An example of this is the Government’s aspiration to increase the income tax personal allowance to £12,500, and the higher rate income tax threshold to £50,000 by the end of this Parliament. These measures are not included in current distributional analyses because, while the policy is widely known and is referred to in the Budget,101 it has not yet been confirmed in the Government scorecard list of measures. The Chancellor has previously explained what its inclusion would mean for the distributional analysis:

We have been elected on a manifesto commitment to increase the thresholds for income tax at the basic rate and for income tax at the higher rate. As that manifesto commitment is delivered, every single member of this Committee understands that that will have an impact on the distributional analysis. Clearly, it will benefit those who are not at the bottom of the income distribution.102

108. The Committee welcomes the Chancellor’s decision to continue publishing distributional analysis showing the impact of fiscal policy decisions on households in different parts of the income distribution. However, there remains scope to make it still more transparent.

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98 HM Treasury, Impact on households: distributional analysis to accompany Budget 2015, 18 March 2015, p3
99 Correspondence from Rt Hon. Andrew Tyrie MP to Chancellor of the Exchequer, Publication of distributional analysis, 22 August 2016
100 Correspondence from Rachel Reeves MP and Wes Streeting MP to the Chancellor of the Exchequer, Distributional Analysis, 9 September 2016
101 HM Treasury, Autumn Budget 2017, HC587, November 2017, Paragraph 3.5
102 Oral evidence taken on 12 December 2016, HC 837 (2016–17), Q296
109. The analysis groups together all policy measures announced since the Autumn Statement 2016. Consequently, the distributional impacts of policies announced in a particular Budget cannot be ascertained, as they are amalgamated with those of previous fiscal events. In future, the Treasury should publish an analysis of the impact of the measures in each Budget in isolation, alongside the cumulative effects.

110. The decision by the Chancellor to reset the starting point for the analysis to the Autumn Statement 2016 means that decisions announced prior to this point are not included, even though their effects on households might not yet have been felt in full. For example, if the decision to freeze working-age benefits in cash terms and to reduce the scope and value of work allowances in Universal Credit were included, the analysis would appear materially worse for households at the bottom of the income distribution.

111. To address such concerns about the transparency of the distributional analysis, the Treasury should provide the raw data underpinning it, so that individual policies of the Government and their distributional impact can be analysed in more detail.
7 Equality impact assessment of the Budget

112. The Committee asked the Chancellor whether HM Treasury carried out an equality impact analysis of the Autumn Budget. The Chancellor stated that:

The equalities impact requirements apply to all measures across government, not just the Budget. We do that for all measures. Ministers receive advice on the equalities impacts of every measure before they sign them off, and are asked to sign the advice to confirm that they have received and considered it.103

113. Clare Lombardelli, Director of Strategy, Planning and Budget, HM Treasury, told the Committee that a formal Equalities Impact Assessment was not published because, while the impacts of policies were considered, calculating accurate and reliable information was difficult:

We do not publish any of the detail of the internal policy advice that goes to Ministers, but we do consider the equalities impact of all the measures. We have considered it in the process. Ministers see that advice. […] It is very difficult to produce an overall robust picture by different demographic groups. All sorts of things affect that: the household structure, taxes and benefits, all those things. Other people produce versions and variants of this, but they all have their own faults and issues.104

114. The Chancellor stated that data may not be available to conduct such analyses: “If the data is available, that is one thing. If the data is not available, of course it cannot readily be done”.105 When asked whether he had asked the Office for National Statistics to look into this, he said he had not.106

115. Paul Johnson told the Committee that producing impact assessments on the basis of gender would be possible because the data was available, but that the conclusions drawn from it may be less clear:

You clearly can provide some analysis of the gender impact of tax and benefit policies. You just have to be very careful about exactly how you interpret and present them. For example, suppose you were to raise the 40p or 45p rate of income tax, we know exactly the genders of the people who pay that on their incomes, and they will be overwhelmingly men. Does that mean it has no impact on the women to whom those men might be married? No, it does not, so you clearly need to put that in context. Equally, if you cut benefits for families or children, which are currently paid to the woman, will that have no effect on to whom they are married? No, it will not.107

103 Q367
104 Q368
105 Q371
106 Q372
107 Q131
116. The only equalities impact assessments that have been published on the Autumn Budget are within the “Tax information and impact notes” (TIINs) included within HMRC’s Overview of Tax Legislation and Rates, 22 November 2017. The Women’s Budget Group notes that the only TIINs where a gender impact has been identified are where the negative impact is disproportionately on men. These consisted of the changes in tobacco products duty rates (costing £40m per year) because “men are slightly more likely to smoke than women,” and the introduction of a supplementary charge for diesel cars (costing £15m per year) because “car buyers […] are more likely to be male than female.”

117. The HMRC Overview of Tax and Legislation and Rates states that “it sets out the detail of each tax policy measure announced at Autumn Budget 2017”. However, it does not include any assessment of the fuel duty freeze for 2018–19, a policy that costs the Exchequer £850m.

118. HMRC’s inclusion of a TIIN for the supplementary charge for diesel VED, which HMRC state will impact upon men more than women, suggests that data is available for vehicle driver characteristics. However, for another policy related to VED, the uprating of VED in general for vans, motorbikes and pre-2017 cars, the TIIN for states that “data is not collected on protected characteristics of VED payers”.

119. 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.

120. The Committee notes that official statistics are currently used for such purposes, albeit inconsistently. For instance, HMRC concluded in its “Overview of Tax Legislation” that the supplementary charge for diesel car Vehicle Excise Duty (VED) negatively affects men more than women. It could equally use a gender breakdown of miles travelled by car in the National Travel Survey to draw conclusions about the impact of fuel duty, a policy which costs the Exchequer 56 times as much in foregone tax revenue as the changes to VED.

121. It appears inconsistent that the gender impact of the increase in VED for new diesel cars was able to be assessed, but such an assessment was not able to be produced for the uprating of VED in general for vans, motorbikes and pre-2017 cars. The Committee would welcome an explanation.
8 Business Rates and the so-called ‘staircase tax’

122. The Autumn Budget announced a number of changes to the administration of Business Rates in order to support “businesses and improve the fairness of the system”. The measures include:

- bringing forward to 1 April 2018 the planned switch in indexation from the Retail Price Index (RPI) to the main measure of inflation, currently Consumer Price Index (CPI),
- legislating retrospectively to address the so-called ‘staircase tax’. Affected businesses will be able to ask the Valuation Office Agency (VOA) to recalculate valuations so that bills are based on previous practice backdated to April 2010—including those who lost Small Business Rate Relief as a result of the Court judgement, and
- increasing the frequency with which the VOA revalues non-domestic properties by moving to revaluations every three years following the next revaluation, currently due in 2022.

Change in revaluations

123. At present Business Rate revaluations occur every five years. The longer the gap between revaluations, the greater the opportunity for the value of a property to diverge from its last valuation.

124. In 2017, a revaluation of commercial properties for the purposes of Business Rates took effect. The revaluation should have taken place in 2015, but was delayed by two years by the Growth and Infrastructure Act 2013.

Therefore no revaluation had taken place for seven years. When the revaluation did take place, the values used were those from 2015. Although fiscally neutral, the seven-year time lapse meant that properties in London had gone up significantly in price, and therefore would be paying significantly more in rates, while all other areas of the country that should have received a reduction in Business Rates sooner, had been paying higher rates than they otherwise should have been paying for an additional two years.

125. The current five-year revaluation period remains unchanged and will run from 2017 to 2022. Therefore, the first shorter three-year revaluation period will begin in 2022 and run until 2025.

126. The Institute of Directors made the case in its Spring Budget 2017 submission for using technology to help remove the cliff edges in Business Rates experienced by businesses:

> There are coherent arguments for a fuller review of the business rates system more generally, with modern technology and ‘big data’ advances in theory...
making it possible to have a more responsive, ‘real-time’ ratings system, as opposed to the five- or indeed seven-year cycle of plateaus and damaging cliff edges.\textsuperscript{118}

127. At the time of the 2017 revaluation CVS, a business rates specialist, reported that across its nine distribution centres in England and Wales, Amazon would “benefit from a £148,000 reduction in property tax liabilities” with similar situations among other large out-of-town distribution centres for businesses such as ASOS, Boohoo, AO.com, JD Sports and Sports Direct. At the same time, CVS calculated that the average small shop would experience an extra £3,663 in rates over the next 5 years.\textsuperscript{119}

128. \textbf{Moving to three-year revaluations is an improvement to the Business Rates system. More regular revaluations will provide more accurate property valuations, and the changes to Business Rates that businesses experience will, on average, be smaller, and easier to adapt to. However, the benefits of this policy change will not be felt until 2025, when properties are revalued for the first time according to the new timetable. The Committee recommends the Government urgently investigates how to shorten the timescale between revaluations through, for example, revaluing properties annually between formal revaluations using published property price indexes.}

129. \textbf{Business Rates damage the competitiveness of shops on the high street relative to large out-of-town distributors and online retailers. The Government should address the property taxation imbalance between businesses on the high street compared to those based on major out-of, or edge-of town, retail parks, and online businesses.}

\section*{Abolition of staircase tax}

130. The so-called ‘staircase tax’ came into existence as a result of a Supreme Court ruling\textsuperscript{120} on how to define physically separate properties as separate or not. The Court ruling prevented valuation officers from assigning a single rateable value to properties that are not physically contiguous but (for instance) are covered by a single lease to a single occupant. The matter had previously been a matter of discretion for local valuation officers.\textsuperscript{121}

131. The consequences of this ruling were that property units that had been previously considered to be a single unit were now separate units. One example that was provided to the Committee was the case of a company where due to the staircase between its two floors being a communal staircase shared with other tenants of the building, the units were deemed to be separate. Had the staircase not been communal, the units would have been classed as the same property.

132. The entitlement to Small Business Rate Relief rests on whether a company only operates from one property with a rateable value of less than £15,000. If a business uses more than one property it may still be able to qualify for the relief, but only if none of

\begin{footnotesize}
\begin{enumerate}
\item[118] Institute of Directors, \textit{Recommendations to HM Treasury for Budget 2017}, January 2017
\item[119] Commercial Valuers and Surveyors Limited, \textit{Small shops Vs E-tailers- which has won the Business Rates battle?}, 20 January 2017
\item[120] Woolway v Mazars (2015 UK SC53), 29 July 2015
\item[121] Business rates: the 2017 revaluation, Briefing Paper 07722, House of Commons Library, 23 November 2017
\end{enumerate}
\end{footnotesize}
the additional properties have a rateable value above £2,899 and the total rateable value of all the properties is less than £20,000. The ‘staircase tax’ removed many businesses eligibility for Small Business Rate Relief despite not having changed in size.

133. The Supreme Court ruling meant that many businesses previously eligible for Small Business Rates Relief were no longer eligible, on the grounds that they happened to share a staircase with other tenants. Such a situation was clearly not what was intended by the policy. The Committee raised the issue in oral evidence with the Chancellor in October 2017. The Committee welcomes the Chancellor’s subsequent commitment to legislate to retrospectively remove the so-called ‘staircase tax’.

**Change in indexing increases in Business Rates from RPI to CPI**

134. At present, the Business Rates Multiplier increases each year in line with the Retail Price Index measure of inflation. The Business Rates Multiplier is applied to the rateable value of a property to calculate the Business Rates liability for a business using the property.

135. The Retail Price Index had its status as a National Statistic de-designated in March 2013. Paul Johnson has been publicly highly critical of the measure writing:

> the RPI is plain wrong [...] It has the rather unfortunate feature that if prices rise one month and then return to their original level the following month, the RPI will still show an increase in prices over the period [...] it really is no good.

136. The Government has already removed the link between RPI and the uprating of pensions, benefits and tax allowances, but continues to use RPI as an index for calculating the interest rate on student loans, the uprating of rail fares, Treasury Gilts, Air Passenger Duty, Vehicle Excise Duty and tobacco and alcohol duties.

137. The Committee welcomes the switch from RPI to CPI for the indexation of the Business Rates multiplier.

138. The RPI is no longer a National Statistic and its deficiencies are numerous. The Government has acknowledged that using the statistically-flawed RPI to uprate the Business Rates multiplier is unfair on businesses. Having acknowledged this, the Government should now discontinue the use of RPI for any indexation purpose where legally possible.

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124 Institute for Fiscal Studies, Good luck to our latest measure of inflation, it’s the best of a bad bunch, 21 March 2017
9 Social care funding

139. On 15 December 2016, the Secretary of State for Communities and Local Government, Sajid Javid MP, announced that “councils [would] be able to raise an additional £208 million for social care, by having the flexibility to increase the dedicated social care precept by up to three per cent next year if they choose”.125

140. The IFS analysed the new announcement made by DCLG and noted that the extra money that local authorities could raise would only bring money forward, rather than increase social care funding:

If councils make full use of the three per cent precept in each of the next two years, they will not be able to use the precept in April 2019: a cap of six per cent in total over the next three years applies. In other words, council tax increases can be brought forward to raise money in the short term, but this will do nothing to plug the longer-term funding issues adult social services face.126

141. As the council tax base varies between local authorities, a flat increase in revenue from a social care precept has different funding consequences for each local authority. Paul Johnson told the Committee “The precept is not directly correlated with need […] some local councils that cannot raise an awful lot from the precept because they have low-value properties and have a lot of need, and there will be other councils that it will work much better for, so there will be a distribution of outcomes”.127

142. The “Better Care Fund” is being introduced to compensate for the differences in outcomes between local authorities. The IFS notes, however, that:

The back loading of the Better Care Fund (it is set to be just £100 million in 2017), and the front-loading of the increases in council tax via the Social Care Precepts mean that in 2017–18 and 2018–19, areas with lots of high valued properties and/or low needs will see a relatively bigger increase in the resources available for social care.128

143. In its November 2017 Economic and Fiscal Outlook, the OBR highlighted that local authorities, in particular those with social care responsibilities, have begun to draw down on their reserves:

One striking feature of the net reserves drawdown last year was the difference in behaviour between local authorities with and without social care responsibilities […] local authorities with upper-tier responsibilities, including education and social care, and the GLA both drew down from their reserves (by £0.2 and £0.5 billion respectively). Other authorities, without upper-tier responsibilities, added £0.2 billion to their stocks of reserves. In total, English local authorities drew down £0.4 billion in net

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125 Department for Communities and Local Government, ‘Dedicated adult social care funding forms key part of continued long-term funding certainty for councils’, accessed 17 January 2018
126 Institute for fiscal studies, ‘How far do today’s social care announcements address social care funding concerns? (16 December 2016)’, accessed 17 January 2018
127 Q 128
128 Institute for fiscal studies, ‘How far do today’s social care announcements address social care funding concerns? (16 December 2016)’, accessed 17 January 2018
terms from reserves in 2015–16. In 2016–17, upper-tier authorities drew down again, and by more than in 2015–16 (£1.4 billion). The GLA once again drew down from reserves (by £0.4 billion), while other authorities added further to their stock of reserves (by £0.2 billion).

144. The social care precept is effectively a hypothecated tax. In previous Parliaments, former Treasury Committees criticised hypothecation of central government taxation, partly on the grounds that the revenue raised by such taxes rarely reflects the required amount of spending.\(^\text{129,130}\)

145. The same arguments apply at local government level. 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.

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10 Universal Credit

Policy changes in budget

146. The Budget announced that:

- from January 2018 those who need it, and who have an underlying entitlement to Universal Credit, will be able to access up to a month’s worth of Universal Credit within five days via an interest-free advance,

- the Government will extend the period of recovery [of advances] from six months to twelve months,

- from February 2018, the Government will remove the seven-day waiting period so that entitlement to Universal Credit starts on the first day of application, and

- from April 2018, those already on Housing Benefit will continue to receive their award for the first two weeks of their Universal Credit claim.¹³¹

Frequency of payments

147. Paul Johnson told the Committee that of the changes to Universal Credit (UC) announced, the removal of the seven-day waiting period was the “significant spending change”¹³² but that at its peak it only costs £205 million per year, which in the context of the total changes brought about by Universal Credit was “a pretty small number”¹³³

148. Universal Credit is paid monthly, replacing several other benefits, among which Employment and Support Allowance and Jobseeker’s Allowance are paid every two weeks.¹³⁴ The Chancellor told the Committee that paying UC monthly was intended to replicate patterns of payment in the world of work. He described this as part of the “fundamental design” of Universal Credit, pointing out that:

People are accruing an entitlement but being paid at the end of the monthly period, as is normal for 70 per cent of people in work.¹³⁵

The Chancellor went on to say:

When somebody moves into monthly-paid work, they will have the challenge of working for four or five weeks, sometimes a little longer, before they get their first pay cheque. Most employers will make an advance available to someone coming into work against their first month’s pay¹³⁶ […] What we have tried to do here is replicate what I believe is normal, good practice among many employers.¹³⁷

¹³² Q141
¹³³ Q141
¹³⁴ HM Government, ‘How and when your benefits are paid’, accessed 17 January 2018
¹³⁵ Q351
¹³⁶ Q353
¹³⁷ Q352
149. Kayley Hignell, Head of Policy for welfare, work and family, Citizens Advice, told the Work and Pensions Committee that “Our own evidence shows that most of our clients are not paid monthly; they are paid fortnightly or weekly”.138 The Resolution Foundation’s assessment of the Budget stated that “The design of UC will still fail to reflect the reality of people’s lives, with issues such as its treatment of the self-employed or parents claiming support with childcare costs remaining problematic”.139

**Taper rate**

150. Within UC, a taper rate is set, which calculates the rate at which UC is removed as an individual’s income increases. The current rate of 63 per cent means that once a claimant’s earnings increase above the work allowances threshold to which they are entitled as set out under the UC framework, their income will be withdrawn at a rate of 63 pence for every extra £1 earned.

151. The taper rate was reduced from its initial rate of 65 per cent to 63 per cent at the Autumn Statement 2016, applying from April 2017 onwards. The Autumn Budget stated that “more people are moving into work within six months under Universal Credit than in the legacy system” but that “the taper rate will be kept under review and the Government will continue to consider the case for further changes”.140

152. In practice, the effect of the taper rate for UC recipients is much the same as that of a marginal rate of income tax on earnings. The Committee has previously taken evidence from Professor Philip Booth of the Institute of Economic Affairs on the taper rate who stated that the high rate could have an impact on “incentives to train, incentives to upskill, incentives to take more responsibility”141 but that these were unknown. However, he cautioned that “the only way you could reduce it [the rate] is either by having a longer taper, so that many more people are brought into the universal credit net, or by having a lower level of basic benefit to start with”.142

153. The Autumn Budget announced some welcome measures to address some of the problems encountered in the roll-out of Universal Credit. The removal of the seven-day waiting period ensures there is no period of time in which recipients are not accruing entitlement to payments. The ability to access up to one month’s worth of Universal Credit within five days via an interest-free advance should help to mitigate some of the delays in payment that have been experienced.

154. The purpose of Universal Credit is to help people into work, and to stay in work. The Government should ease the cashflow challenges around Universal Credit by giving recipients the option of fortnightly payments, should this be more consistent with household needs.

155. The Budget committed to keep the Universal Credit taper rate under review. Given that the taper rate may act as a disincentive to individuals taking on more work, or seeking promotion, the Government should explain why a high taper rate of 63 per cent is optimal.

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138 Oral evidence taken before the Work and Pensions Committee on 13 September 2013, HC (2017–19) 336, Q67
141 Oral evidence taken 6 December 2016, HC (2017–19) 837, Q273
142 Oral evidence taken 6 December 2016, HC (2017–19) 837, Q273
Assessment of the tax measures in the Autumn Statement

156. As with previous fiscal events, the Committee asked the Institute of Chartered Accountants in England and Wales (ICAEW), the Chartered Institute of Taxation (CIOT), the Association of Accounting Technicians (AAT) and the Association of Chartered and Certified Accountants (ACCA) for their overall assessments of the tax measures in the Autumn Budget 2017. It asked for the taxation policies to be measured against the criteria of fairness and that they should: support growth and encourage competition; provide certainty; provide stability; be practicable; and provide for a coherent tax system.

157. The Committee is grateful for their submissions, which have been published. In summary, the submissions noted that, like most fiscal events, this Autumn Budget contained some measures that scored well against the Committee’s criteria and some that did not. Rather than work through the entire Budget, they each selected what they considered to be the most significant measures.

158. Their assessments are set out in the following table:

Table 3: Assessment of tax measures

<table>
<thead>
<tr>
<th>Autumn Budget Policy measure</th>
<th>Measure description</th>
<th>CIOT</th>
<th>ACCA</th>
<th>ICAEW</th>
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<tr>
<td>5</td>
<td>SDLT First-Time Buyers</td>
<td>A</td>
<td>A</td>
<td>A</td>
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<td>14–16</td>
<td>Universal Credit Measures taken as a whole</td>
<td>A</td>
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<tr>
<td>23</td>
<td>Increase R&amp;D expenditure credit to 12%</td>
<td>A/G</td>
<td>A</td>
<td>G</td>
<td></td>
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<tr>
<td>25</td>
<td>Patient capital—reforms to tax reliefs to support productive investment</td>
<td>A</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>34</td>
<td>Business Rates: bring forward CPI uprating to 2018–19</td>
<td>G</td>
<td>A</td>
<td>G</td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>Tackling avoidance evasion and compliance</td>
<td>A</td>
<td>A</td>
<td></td>
<td></td>
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<tr>
<td>40</td>
<td>Corporation tax: tackle related party step up schemes</td>
<td>G</td>
<td></td>
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<tr>
<td>41</td>
<td>Corporation tax: depreciatory transactions</td>
<td>A/R</td>
<td>A</td>
<td></td>
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<tr>
<td>42</td>
<td>Royalty payments made to low tax jurisdictions: withholding tax</td>
<td>A</td>
<td>A/R</td>
<td>R</td>
<td></td>
</tr>
<tr>
<td>43</td>
<td>Online VAT fraud: extend powers to combat</td>
<td>A</td>
<td>A/G</td>
<td>A</td>
<td>R</td>
</tr>
<tr>
<td>44</td>
<td>Offshore Time Limits: extend to prevent non-compliance</td>
<td>A</td>
<td></td>
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<td>45</td>
<td>Carried Interest: prevent avoidance of CGT</td>
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<tr>
<td>47</td>
<td>Dynamic coding-out of debt</td>
<td>A/G</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

143 Association of Chartered Certified Accountants (TAB0005), Chartered Institute Of Taxation (TAB0004), Institute of Chartered Accounts in England and Wales (TAB0006), Association of Accounting Technicians, ‘Response to the Autumn Budget 2017’, accessed 17 January 2018
<table>
<thead>
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<th>Autumn Budget Policy measure</th>
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<th>ACCA</th>
<th>ICAEW</th>
<th>AAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>48</td>
<td>Construction supply chain VAT fraud: introduce reverse charge</td>
<td>A/G</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>49</td>
<td>Waste crime</td>
<td>A/G</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>51</td>
<td>Corporation tax: freeze indexation allowance from January 2018</td>
<td>G</td>
<td>A</td>
<td>G</td>
<td>R</td>
</tr>
<tr>
<td>52</td>
<td>Gains by non-residents on UK property</td>
<td>A/G</td>
<td>A</td>
<td></td>
<td></td>
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<tr>
<td>53</td>
<td>CT on rental income of non-resident companies from UK real estate</td>
<td>A</td>
<td>A</td>
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<td>55</td>
<td>VAT registration threshold: maintain at £85,000 for two years</td>
<td>G</td>
<td>A</td>
<td>A</td>
<td>G</td>
</tr>
<tr>
<td>59</td>
<td>Scotland police and fire: VAT refunds</td>
<td>G</td>
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<tr>
<td>60</td>
<td>Company Car benefit, diesel supplement</td>
<td>A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>66</td>
<td>NICs: maintain Class 4 NICs at 9% and delay NICs Bill by one year</td>
<td>A</td>
<td>A</td>
<td>G</td>
<td></td>
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<tr>
<td>N/A</td>
<td>Offshore trusts: anti-avoidance</td>
<td>R</td>
<td></td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>N/A</td>
<td>Marriage Allowance: allowing claims on behalf of deceased partner</td>
<td>G</td>
<td>G</td>
<td>G</td>
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</tr>
<tr>
<td>N/A</td>
<td>Taxation of employee business expenses</td>
<td>G</td>
<td></td>
<td></td>
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<tr>
<td>N/A</td>
<td>Termination payments: removal of foreign service relief</td>
<td>R</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>N/A</td>
<td>Late submission penalties</td>
<td>G</td>
<td></td>
<td></td>
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<tr>
<td>N/A</td>
<td>Tackling disguised remuneration</td>
<td>R</td>
<td>A</td>
<td>G</td>
<td></td>
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<tr>
<td>N/A</td>
<td>Off payroll working in private sector</td>
<td>R</td>
<td></td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>N/A</td>
<td>Impact of measures on tax devolution</td>
<td>A</td>
<td></td>
<td></td>
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<tr>
<td>N/A</td>
<td>Extend scope of self-funded training</td>
<td>G</td>
<td>G</td>
<td></td>
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</tr>
<tr>
<td>N/A</td>
<td>Mileage rates for landlords</td>
<td>G</td>
<td>G</td>
<td></td>
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</table>

159. There was a general consensus that the measures around patient capital and the tax incentives for investing in knowledge-intensive companies through the Enterprise Investment Scheme (EIS) were positive.

160. Conversely, there was general consensus that the withholding tax on royalty payments made to low tax overseas jurisdictions was uncertain, and the time scale for its consultation and implementation based on the detail provided was limited. The ACCA stated that the measure:

> clearly demonstrates the characteristics of a short-term interim measure rather than a long term solution, with the projected revenues of £800m over the five year forecast period weighted heavily to the early stages of implementation. This is entirely consistent with a successful anti-avoidance measure; it should by definition destroy its own base as it discourages the perceived behaviour it exists for. However, as the relevant Treasury position
paper acknowledges, there are significant challenges around identifying the businesses and transactions which should properly be the target of such measures. While we welcome the engagement on this crucial aspect of future tax policy design, the time allowed for submission of comments and further discussion is extremely limited.\footnote{144}

161. There were diverging opinions regarding the removal of the indexation allowance on assets for companies. The CIOT concluded that the measure was simple and addressed the anomaly in treatment between companies and individuals where companies have previously received an allowance but individuals have not. However, the AAT considered this argument to be flawed, given that individuals continue to benefit from an annual Capital Gains allowance which companies do not.

162. \textbf{While there was concern among the taxation bodies regarding the administrative difficulties in designing and enforcing an overseas royalty payments tax avoidance measure, the Committee welcomes the Government’s initiatives to address tax avoidance through such royalty payments and structures that artificially move legitimate UK taxable profits out of UK tax jurisdiction.}
Conclusions and recommendations

The Economy: Productivity

1. In common with many other forecasters, the OBR has been consistently overly optimistic in its forecasts for productivity growth. It has now chosen a path for productivity that lies between the pre- and post-financial crisis trends. Productivity will need to increase to a rate more than twice as fast than has been achieved for the past nine years, if it is to grow in line with the OBR’s forecast. (Paragraph 27)

2. Just as the causes of persistently weak productivity growth in the UK and the rest of the developed world are poorly understood and are widely described as a productivity puzzle, so the optimum policy response from Government is not obviously clear. No one single policy measure in isolation is likely to address the large number of potential causes of the productivity puzzle. (Paragraph 28)

3. A rise in well-focused investment, both public and private, is likely to improve productivity growth in the long term. The Government has set out plans to raise public investment to the highest level, as a percentage of GDP, for the last 30 years. This is a welcome commitment. Nevertheless, a revival in productivity will also require a response from the private sector, which accounts for three-quarters of investment. At the moment, the OBR expects a fall in private sector investment, as a proportion of GDP, over the coming five years, owing to Brexit-related uncertainty. The Committee reiterates its conclusions about the urgency of reaching agreement on transitional arrangements for Brexit that reduce short-term uncertainty for business, and the importance of establishing clarity on the long-term UK-EU economic relationship. (Paragraph 29)

4. As the UK leaves the EU, continued openness to trade, foreign investment and migration are likely to be prerequisites to a revival in productivity performance. (Paragraph 30)

5. The OBR has stated that the link between trade intensity and increased productivity is insufficiently well understood to be included in its forecast, and as a result has not included any decline in productivity due to reduced trade intensity in its post Brexit forecast. The Committee is concerned as this conclusion stands in contrast to the assumptions made by the Treasury, Bank of England and the Secretary of State for International Trade, that higher trade intensity leads to higher productivity growth. If trade intensity initially declines as a result of Brexit, as is forecast by the OBR, and does lead to a decline in productivity (as is assumed by the Treasury, the Bank of England and the Secretary of State for International Trade) it would significantly worsen the expected economic and fiscal consequences of leaving the EU, compared to what the OBR forecasts at present. (Paragraph 31)
The Economy: OBR forecasting alternative scenarios

6. The OBR uses the ONS’ migration forecasts as its input figure for migration in its economic forecast. These forecasts have been consistently above the tens of thousands, which is in contradiction to the Government’s stated policy of reducing migration to the tens of thousands. In its Economic and Fiscal Outlook November 2016, the OBR forecast that the impact of leaving the EU would increase Government borrowing by £58 billion over the forecast period. It has not since revisited this assessment. However, as 2018 progresses, the Committee judges that the ability to revise the November 2016 forecast is likely to be possible and the Committee recommends the OBR does so at the earliest possible opportunity. (Paragraph 41)

7. The OBR has stated that it still has no meaningful basis to judge the UK’s final relationship with the EU, on which it can condition its forecast for the economy and the public finances. However, the absence in its forecasts of a step change in trade intensity at the point that the UK is expected to leave the EU (in March 2019) is consistent with a scenario where transitional arrangements are negotiated. The forecasts are not consistent with a reversion to WTO rules in March 2019, which would be likely to lead to a substantial negative trade shock from Q2 2019 onwards. (Paragraph 42)

8. Although no specific attempt has been made to forecast the long-term impact of the UK’s end-state relationship with the EU, Robert Chote has acknowledged that the consequences of Brexit on economic growth, whether positive or negative, are likely to be so substantial as to dwarf the impact of the financial settlement. (Paragraph 43)

9. Parliament will need to be fully informed about the size and the direction of these economic and fiscal impacts before it comes to vote on the legislation giving effect to the withdrawal agreement. The independent OBR is best placed to provide this information. It should publish an economic outlook that incorporates the terms of the Withdrawal Agreement prior to Parliament’s consideration of the planned Withdrawal Agreement and Implementation Bill. If the next scheduled forecasts, due to be published around November 2018, come either too early to incorporate the terms of the Withdrawal Agreement, or too late for Parliament’s consideration of the Bill, the OBR should prepare a special forecast. The legislation setting out the OBR’s statutory responsibilities requires the OBR to publish a minimum of two forecasts a year, but does not set an upper limit. (Paragraph 44)

The fiscal rules

10. Despite a chequered history, a well-designed fiscal rule can add something to the credibility of fiscal policy in the eyes of markets and the public. But with each rule that is abandoned, the task of maintaining credibility is made more difficult. (Paragraph 54)

11. 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. (Paragraph 55)
12. To maintain the credibility of fiscal policy, the design and timing of policies should primarily be focused on achieving policy objectives and improving the public finances, rather than meeting fiscal target deadlines. The implementation of a 30-day window for paying Capital Gains Tax appears to be delayed in order to create a one-off windfall to the public finances in the year of the fiscal target. Using the fiscal rules in this way risks damaging the credibility of fiscal policy, the very thing that the rules are designed to protect. (Paragraph 56)

13. 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 target deadline approaches. (Paragraph 57)

14. 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. (Paragraph 61)

15. There is a strong case for excluding the Bank of England Term Funding Scheme (TFS) from the net debt ratio target. This is because the repayment of the TFS in 2020–21 produces a material one-off change to the net debt ratio. This change happens independently of Government policy and distorts the underlying trend, which makes the target easier to meet in the Government’s chosen year. (Paragraph 62)

Government spending on preparation for Brexit, and the financial settlement with the European Union

16. The Chancellor announced an additional £3 billion of spending on preparing for Brexit in the Government’s policy scorecard. This additional spending will be funded from increased Government borrowing rather than being allocated from existing resources. (Paragraph 68)

17. The Chancellor has acknowledged that additional spending—and borrowing—on top of this £3 billion may be needed as the country prepares for all possible Brexit eventualities. (Paragraph 69)

18. Members of the Government have repeatedly stated that the OBR has included the UK’s financial settlement with the EU within its November 2017 forecast. This is not supported by the OBR’s Outlook. The OBR has assumed that the UK’s contributions to the EU budget are ‘recycled’ into domestic spending after March 2019, but it makes no judgement about the purpose to which these funds are deployed. The impact of the financial settlement on the public finances will depend on its size and the schedule of payments, neither of which are known at this point. It will also depend on the purposes to which the settlement is deployed. Until the final payments and scheduling are agreed, the Government cannot assume there will be additional money available for domestic spending. (Paragraph 75)
19. While the size of the exit payment is likely to be significant, the Committee notes Robert Chote's evidence that the impact of any one-off divorce bill on the public finances is likely to be dwarfed by the consequences of Brexit, positive or negative, for the long-term outlook for economic growth. (Paragraph 76)

**Stamp Duty and housing measures**

20. The changes to Stamp Duty Land Tax (SDLT) in the Budget helps first-time buyers by reducing the sum of money needed to save to purchase a house. However, the OBR forecasts that just 3,500 additional first-time buyers over the forecast period will enter the market as a result of the policy change, at a cost of £3.2 billion. There needs to be a step change to helping first-time buyers purchase a home. (Paragraph 93)

21. The OBR forecasts that a permanent reduction in SDLT in isolation will increase the affected first-time buyer house prices by double the reduction in SDLT. The previous 'Stamp Duty Holiday', which was in operation from March 2010 to March 2012, was found by HMRC not to have increased affordability, and to have resulted in an increase in the number of first-time buyers of “between zero and two per cent”. (Paragraph 94)

22. The new SDLT schedule creates a cliff edge at the £500,000 price point, which will create distortions to the housing market. A house worth £500,000 will attract £5,000 less in SDLT than a house worth £500,001. When the previous Government redesigned SDLT to remove ‘cliff edges’ faced at certain property values, the then Chancellor said that he had reformed a “badly designed system that has distorted our housing market for decades”. It is regrettable that the abolition of SDLT for first-time buyers reintroduces a cliff edge into the SDLT schedule. (Paragraph 95)

23. The eligibility for SDLT relief for first-time buyers being extended to houses worth up to £500,000 recognises that previous measures aimed at first-time buyers such as the Help-to-Buy ISA (which were capped at £450,000) excluded some parts of the country. The Committee notes such a recognition. (Paragraph 96)

24. The only sustainable way to address housing market affordability, both for first-time buyers and other households, including those in the rental sector, is to significantly increase the supply of new housing. The Autumn Budget alone is unlikely to achieve this. (Paragraph 97)

25. Despite the Government’s latest housing announcements, the OBR has reduced its residential investment forecast since the Spring Budget. Residential investment is forecast to remain below levels prevailing prior to the financial crisis, a period when housebuilding was considerably below the Government’s new target. (Paragraph 98)

26. Over the past 60 years, private housebuilders have consistently provided around 150,000 units per year. Given this historical record, it is unlikely that the Government’s target of 300,000 new homes per year will be met without a significant increase in the supply of units provided, either directly or indirectly, by local authorities and by housing associations. (Paragraph 99)

27. The decision in the Budget to raise the Housing Revenue Account borrowing cap by £1 billion is a positive step. However, in order to increase Local Authority construction
to levels sufficient to meet the Government’s 300,000 target, the Housing Revenue Account borrowing cap should be removed. Raising the cap would have no material impact on the national debt, but could result in a substantial increase in the supply of housing, allowing local authorities to determine the level of additional housing needed in their area. (Paragraph 100)

28. The bidding process proposed by the Treasury to allocate the additional £1 billion of local authority housing revenue borrowing may not direct resources to areas of greatest housing need. The criteria for allocation are currently unclear. The Chancellor stated in his speech that the bidding process will be aimed at “high demand areas” but the Budget itself referred to “areas with high affordability pressure”. The Treasury should establish clearly defined, needs-based criteria for allocating the additional borrowing. (Paragraph 101)

29. Greater measures are needed to increase housing supply. 300,000 homes a year will not be achieved with the current measures. The Government will need to show greater commitment to housing supply to achieve its aspiration and will need to bring forward additional policy measures. (Paragraph 102)

Distributional analysis

30. The Committee welcomes the Chancellor’s decision to continue publishing distributional analysis showing the impact of fiscal policy decisions on households in different parts of the income distribution. However, there remains scope to make it still more transparent. (Paragraph 108)

31. The analysis groups together all policy measures announced since the Autumn Statement 2016. Consequently, the distributional impacts of policies announced in a particular Budget cannot be ascertained, as they are amalgamated with those of previous fiscal events. In future, the Treasury should publish an analysis of the impact of the measures in each Budget in isolation, alongside the cumulative effects. (Paragraph 109)

32. The decision by the Chancellor to reset the starting point for the analysis to the Autumn Statement 2016 means that decisions announced prior to this point are not included, even though their effects on households might not yet have been felt in full. For example, if the decision to freeze working-age benefits in cash terms and to reduce the scope and value of work allowances in Universal Credit were included, the analysis would appear materially worse for households at the bottom of the income distribution. (Paragraph 110)

33. To address such concerns about the transparency of the distributional analysis, the Treasury should provide the raw data underpinning it, so that individual policies of the Government and their distributional impact can be analysed in more detail. (Paragraph 111)
Equality impact assessment of the Budget

34. 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. (Paragraph 119)

35. The Committee notes that official statistics are currently used for such purposes, albeit inconsistently. For instance, HMRC concluded in its “Overview of Tax Legislation” that the supplementary charge for diesel car Vehicle Excise Duty (VED) negatively affects men more than women. It could equally use a gender breakdown of miles travelled by car in the National Travel Survey to draw conclusions about the impact of fuel duty, a policy which costs the Exchequer 56 times as much in foregone tax revenue as the changes to VED. (Paragraph 120)

36. It appears inconsistent that the gender impact of the increase in VED for new diesel cars was able to be assessed, but such an assessment was not able to be produced for the uprating of VED in general for vans, motorbikes and pre-2017 cars. The Committee would welcome an explanation. (Paragraph 121)

Business Rates and the so-called ‘staircase tax’

37. Moving to three year revaluation is an improvement to the Business Rates system. More regular revaluation will provide more accurate property valuations, and the changes to Business Rates that businesses experience will, on average, be smaller, and easier to adapt to. However, the benefits of this policy change will not be felt until 2025, when properties are revalued for the first time according to the new timetable. The Committee recommends the Government urgently investigates how to shorten the timescale between revaluations through, for example, revaluing properties annually between formal revaluations using published property price indexes. (Paragraph 128)

38. Business Rates damage the competitiveness of shops on the high street relative to large out-of-town distributors and online retailers. The Government should address the property taxation imbalance between businesses on the high street compared to those based on major out-of, or edge-of town, retail parks, and online businesses. (Paragraph 129)

39. The Supreme Court ruling meant that many businesses previously eligible for Small Business Rates Relief were no longer eligible, on the grounds that they happened to share a staircase with other tenants. Such a situation was clearly not what was intended by the policy. The Committee raised the issue in oral evidence with the Chancellor in October 2017. The Committee welcomes the Chancellor’s subsequent commitment to legislate to retrospectively remove the so-called ‘staircase tax’. (Paragraph 133)
40. The Committee welcomes the switch from RPI to CPI for the indexation of the Business Rates multiplier. (Paragraph 137)

41. The RPI is no longer a National Statistic and its deficiencies are numerous. The Government has acknowledged that using the statistically-flawed RPI to uprate the Business Rates multiplier is unfair on businesses. Having acknowledged this, the Government should now discontinue the use of RPI for any indexation purpose where legally possible. (Paragraph 138)

Social care funding

42. The social care precept is effectively a hypothecated tax. In previous Parliaments, former Treasury Committees criticised hypothecation of central government taxation, partly on the grounds that the revenue raised by such taxes rarely reflects the required amount of spending. (Paragraph 144)

43. The same arguments apply at local government level. 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. (Paragraph 145)

Universal Credit

44. The Autumn Budget announced some welcome measures to address some of the problems encountered in the roll-out of Universal Credit. The removal of the seven-day waiting period ensures there is no period of time in which recipients are not accruing entitlement to payments. The ability to access up to one month’s worth of Universal Credit within five days via an interest-free advance should help to mitigate some of the delays in payment that have been experienced. (Paragraph 153)

45. The purpose of Universal Credit is to help people into work, and to stay in work. The Government should ease the cashflow challenges around Universal Credit by giving recipients the option of fortnightly payments, should this be more consistent with household needs. (Paragraph 154)

46. The Budget committed to keep the Universal Credit taper rate under review. Given that the taper rate may act as a disincentive to individuals taking on more work, or seeking promotion, the Government should explain why a high taper rate of 63 per cent is optimal. (Paragraph 155)
Assessment of the tax measures in the Autumn Statement

47. While there was concern among the taxation bodies regarding the administrative difficulties in designing and enforcing an overseas royalty payments tax avoidance measure, the Committee welcomes the Government’s initiatives to address tax avoidance through such royalty payments and structures that artificially move legitimate UK taxable profits out of UK tax jurisdiction. (Paragraph 162)
Formal minutes

Wednesday 17 January 2018

Members present:
Nicky Morgan, in the Chair
Rushanara Ali          Mr Alister Jack
Charlie Elphicke       Alison McGovern
Stephen Hammond        Catherine McKinnell
Stewart Hosie          John Mann

Draft Report (Autumn Budget 2017), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 162 read and agreed to.

Resolved, That the Report be the Fifth 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 (Standing Order No. 134).

[Adjourned till Tuesday 23 January at 9.45 a.m.]
Witnesses

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

Tuesday 28 November 2017

David Orr, Chief Executive, National Housing Federation, Brian Berry, Chief Executive, Federation of Master Builders, and Cllr Nick Forbes, Senior Vice-Chair, Local Government Association

Wednesday 29 November 2017

Ann Pettifor, Director, Prime Economics, Professor Jagjit Chadha, Director, National Institute of Economic and Social Research, and Paul Johnson, Director, Institute for Fiscal Studies

Thursday 30 November 2017

Robert Chote, Chairman, Graham Parker, Member of Budget Responsibility Committee, Professor Sir Charles Bean, Member of Budget Responsibility Committee, Office for Budget Responsibility

Tuesday 5 December 2017

Andrew Courts, Member, Global Forum for Taxation, Association of Chartered Certified Accountants, Frank Haskew, Head of Tax Faculty, Institute of Chartered Accountants in England and Wales, and Ray McCann, Deputy President, Chartered Institute of Taxation

Wednesday 6 December 2017

Rt Hon. Philip Hammond MP, Chancellor of the Exchequer, and Clare Lombardelli, Director, Strategy Planning and Budget, HM Treasury
Published written evidence

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

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

1. Ann Pettifor (TAB0001)
2. Association of Chartered Certified Accountants (TAB0005)
3. Chartered Institute of Taxation (TAB0004)
4. Economists for Free Trade (TAB0003)
5. Institute of Chartered Accountants in England and Wales (TAB0006)
6. Professor Jagjit Chadha (TAB0002)
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 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

Fourth Report
Transitional arrangements for exiting the European Union
HC 473