House of Commons
Treasury Committee

Autumn Budget 2017: Government and Office for Budget Responsibility responses to the Treasury Committee’s Fifth Report

Third Special Report of Session 2017–19

Ordered by the House of Commons to be printed 20 March 2018
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

Current membership

Nicky Morgan MP (Conservative, Loughborough) (Chair)
Rushanara Ali MP (Labour, Bethnal Green and Bow)
Mr Simon Clarke MP (Conservative, Middlesbrough South and East Cleveland)
Charlie Elphicke MP (Independent, Dover)
Stephen Hammond MP (Conservative, Wimbledon)
Stewart Hosie MP (Scottish National Party, Dundee East)
Mr Alister Jack MP (Conservative, Dumfries and Galloway)
Alison McGovern MP (Labour, Wirral South)
Catherine McKinnell MP (Labour, Newcastle upon Tyne North)
John Mann MP (Labour, Bassetlaw)
Wes Streeting MP (Labour, Ilford North)

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the internet via www.parliament.uk.

Publication

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.

Committee staff

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), Carolyn Draper (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

All correspondence should be addressed to the Clerk of the Treasury Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5769; the Committee’s email address is treascom@parliament.uk.
Contents

Third Special Report 3

Appendix A: Government Response 3
- The Economy: Productivity 3
- The Economy: OBR forecasting alternative scenarios 4
- The fiscal rules 5
- Government spending on preparation for Brexit, and the financial settlement with the European Union 7
- Stamp Duty and housing measures 8
- Distributional analysis 11
- Equality impact assessment of the Budget 12
- Business Rates and the so-called ‘staircase tax’ 14
- Social care funding 15
- Universal Credit 16
- Assessment of the tax measures in the Autumn Statement 17

Appendix B: Office for Budget Responsibility Response 18
- Trade intensity and productivity 18
- Basing forecasts on current Government policy 19
- Reassessing the impact of the vote to leave 19
- Transitional arrangements after Brexit 20
- Basing a forecast on the full Withdrawal Agreement 21
- The EU financial settlement 21
- Stamp duty land tax relief for first-time buyers 22
Third Special Report

On 22 January the Treasury Committee published its Fifth Report of session 2017–19, *Autumn Budget 2017* (HC 600). The Government’s response was received on 13 March 2018, and is published as Appendix A to this report. The Office for Budget Responsibility’s response was received on 12 March 2018, and is published as Appendix B to this report.

Appendix A: Government Response

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)

Productivity growth has slowed across all advanced economies since the financial crisis, but it has slowed more in the UK than elsewhere. The government recognises that no single policy measure in isolation is likely to address the large number of potential causes of the productivity puzzle.

It is for this reason that the government has introduced a series of reforms that seek to tackle various elements of the UK’s productivity challenge. For instance, since 2010 the government has delivered a major increase in investment, with over half a trillion pounds in capital investment, while Autumn Budget 2017 extended and increased the National Productivity Investment Fund from £23 billion to over £30 billion. The government has also supported business investment through lowering corporation tax, and Autumn Budget 2017 announced the government’s response to the Patient Capital Review with an action plan to unlock £20 billion of new investment into high growth, innovative businesses. The government has sought to improve skills through the introduction of new T-levels, and Autumn Budget 2017 announced the introduction of a new National Retraining Scheme. And finally, our Industrial Strategy takes steps to improve the five foundations of increasing earning power and productivity: business environment, people, ideas, infrastructure and places.

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)

The government is confident of reaching agreement with the EU on a strictly time-limited Implementation Period, based on the existing structure of EU rules and regulations, during which the UK and the EU would continue to have access to one another’s markets on current terms, and the UK would take part in existing security measures. Such an Implementation Period means that both businesses and public services will only have to plan for one set of changes in the relationship between the UK and the EU. The business community has been clear on the importance of this to their planning. The government has put forward practical solutions which will help deliver a smooth exit, and protect both UK and EU interests during the Implementation Period, and is confident that we can secure an agreement at the March European Council.

As the Prime Minister said in her speech on 2 March 2018, the UK is seeking the broadest and deepest possible agreement with the EU, that covers more sectors and co-operates more fully than any other Free Trade Agreement. The government wants an economic partnership that delivers the maximum possible benefits for both our economies while respecting the integrity of each other’s institutions and autonomy.

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)

As the OBR state in their Economic and Fiscal Outlook, they take full responsibility for the judgements that underpin the forecast and for the conclusions they have reached. They will provide more information to the Committee in their response.

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 OBR’s remit, which is clearly defined in the Budget Responsibility and National Audit Act 2011, is to ‘examine and report on the sustainability of the public finances’. The OBR has discretion over the performance of its duty subject to fulfilling the requirements contained within the Act and Charter for Budget Responsibility. They will provide more information to the Committee in their response.

**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)

The Charter for Budget Responsibility was approved by Parliament in January 2017 and included an objective to return the public finances to balance in the next Parliament which at the time was expected to end in 2025.
6 Government and Office for Budget Responsibility responses to the Treasury Committee’s Fifth Report

General Election 2017 changed Parliaments timetable, but the government has been clear that our fiscal objective is to guide the UK towards a balanced budget by the middle of the next decade, as was set out in the Autumn Budget 2017 document. The government has chosen not to update the Charter for Budget Responsibility at the 2018 Spring Statement.

11. 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)

The 30-day payment window is expected to increase taxpayer compliance. This delay is to allow taxpayers time to adjust to the recent changes to Capital Gains Tax, before reducing the amount of time they have to make their payment. The government believes it is right to ensure that taxpayers are well prepared for the change.

12. 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)

13. 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)

The government’s fiscal rules strike the right balance between returning the public finances to a sustainable position while helping households and businesses, supporting our world class public services, and investing in the UK economy. The fiscal mandate allows the automatic stabilisers to operate in full, which provides the flexibility for some additional borrowing if needed in response to a change in economic conditions. The OBR forecast that both the fiscal mandate and supplementary debt target will be met two years early with some fiscal headroom. This provides additional flexibility to support the economy if needed, and ensures that we can provide stability in the public finances.

The government has been very clear that it is committed to ensuring debt falls as a share of GDP in order to improve our economic and fiscal resilience. As a result of the government’s policies, debt is now forecast to fall over a consecutive run of years. The OBR’s November 2017 forecast showed that debt would peak in 2017–18 before falling in 2018–19 and every subsequent year of the forecast.

14. 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)
Public sector net debt (PSND) has been the UK’s headline measure of debt for many decades and is widely understood. It is right that the government should continue to target PSND as the headline measure of debt to maintain a consistent measure of the government’s fiscal position.

However, in order to be completely transparent about the impact of the TFS, the Office for National Statistics publishes, and the government has asked the OBR to forecast, two supplementary measures for debt. These are public sector net debt excluding the Bank of England, which excludes the liabilities of the TFS as well as all other Bank of England net liabilities, and public sector net financial liabilities which includes both the assets and liabilities of the TFS. The OBR’s November 2017 forecast showed all three measures of debt falling as a share of GDP in 2020–21.

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

15. 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)

16. 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)

The additional £3 billion allocated over the next two years at Autumn Budget 2017—£1.5 billion in each year—was set aside in order to ensure that the UK can make the most of the benefits and opportunities of leaving the EU. All spending measures decided at Autumn Budget 2017 were taken in light of the fiscal position and the government remains committed to its fiscal targets for both debt and borrowing. The OBR’s November 2017 forecasts factor in this additional expenditure, and show that the government is on track to meet both of their near-term fiscal targets.

A breakdown of allocations for 2018–19 was announced by the Chancellor at Spring Statement 2018. Making a success of EU Exit is a priority for the government and the Chancellor stands ready to allocate further sums if and when needed.

17. 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)

As the Chancellor explained in his appearance before the Committee on 6 December 2017, negotiations on the financial settlement have secured the principle that the UK will
only be required to make payments as they come due; the Joint Report confirms that we will not be required to incur expenditure earlier than would be the case had we remained a member state, unless agreed by both sides. Since we will not be required to pay more or sooner than if we had remained a member state, the settlement is effectively provided for within the OBR’s November 2017 forecast. Further decisions on the replacement of EU funding will be taken in light of wider UK strategic priorities and other domestic spending decisions.

The OBR have since set out their assessment of the financial settlement in Annex B of their March 2018 Economic and Fiscal Outlook.

18. 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)

While the government has agreed on a financial settlement with the EU, enabling us to move to the next stage of negotiations, the OBR have not based their forecast on any specific outcome of Brexit negotiations. In all forecasts since the referendum, they have noted that the outcome of negotiations remains uncertain so they maintain “broad-brush” assumptions consistent with a range of possible outcomes.

As the Prime Minister said in her speech on 2 March 2018, the UK is seeking the broadest and deepest possible agreement with the EU, that covers more sectors and co-operates more fully than any other Free Trade Agreement. For our future economic partnership, existing models do not provide the best way forward. The government wants a comprehensive economic partnership that delivers the maximum possible benefits for both our economies while respecting the integrity of each other’s institutions and autonomy. This partnership, together with the new trade deals we strike with allies across the world, will support new jobs for our people, new markets for our exporters, and new growth for our economy.

Stamp Duty and housing measures

19. 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)

20. 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)

At Autumn Budget 2017 the government announced a permanent Stamp Duty Land Tax (SDLT) relief for first-time buyers, which will benefit over 95% of first-time buyers who pay SDLT. In their response to the committee the OBR have clarified that the 3,500 figure is the OBR’s estimate of the number of additional first-time buyer purchases which will displace other property transactions each year as a result of the relief, rather than over the
forecast period, as the report suggests. The number of first-time buyers who will benefit from the change overall is far higher, and the government expects the relief to help over a million first-time buyers getting onto the housing ladder over the next five years. It is also important that this measure is considered in the wider context of the large package of measures to improve the housing market, including at least £44 billion of support for housing over the next five years. Currently, the OBR forecast for housing starts uses a top-down modelling approach (based on interest rates and property transactions) rather than a bottom up assessment of the number of homes delivered by different schemes. The OBR say have said that they will keep their forecast under review as Budget policies are delivered. Initial reactions from industry have also suggested the SDLT relief will play a role in supporting supply, including from the Home Builders Federation, who have said it will give builders the confidence to invest in land and skills.

As the Committee’s report notes, the SDLT relief will benefit first-time buyers independent of any price effect. The Institute for Fiscal Studies has said that first-time buyers will need less cash upfront as they will not need to cover SDLT, and that even if prices were to increase, the buyer would be taking ownership of a more valuable asset. The OBR has also noted that this will support those with small deposits who would otherwise be constrained by loan-to-value criteria, because they can borrow to cover the house price, unlike the tax liability.

21. 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)

22. 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)

By extending the relief to purchases worth up to £500,000, the government has ensured that over 80% of first-time buyers do not pay SDLT. The relief means there is no SDLT on the average first time buyer property in any English region outside London, or in Wales or Northern Ireland. In London, the relief nearly halves the SDLT paid on the average first-time buyer property. At the same time, by capping the relief, the government is ensuring that the most expensive 4% of property transactions do not benefit from relief.

23. 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)

24. 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)
The government is committed to fixing the housing market and building the homes this country needs. The government announced a package of policies at Autumn Budget 2017 to increase annual housing supply by the end of this Parliament to its highest level since 1970, and on track to reach 300,000 per year. However, the government recognises that it will take time for these changes to have an effect. Currently, the OBR forecast for housing starts uses a top-down modelling approach (based on interest rates and property transactions) rather than a bottom-up assessment of the number of homes delivered by different schemes. The OBR have said that they will keep their forecast under review as Autumn Budget 2017 policies are delivered.

As the OBR state in their November Economic and Fiscal Outlook, the decision to reduce forecast growth in residential investment followed downward revisions to the house price and transaction forecasts. The residential investment forecast is largely comprised of major repairs and home improvements, as well as transfer costs (e.g. estate agent fees and SDLT). New build housing only accounted for just over 40% of residential investment in 2016.

25. **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)

The government acknowledges that there is no single policy solution to fix the housing market. Delivering on the governments housing ambitions will require action from all sectors of the market and across all tenures.

Therefore, the government made numerous commitments at Autumn Budget 2017 to provide support across the sector to increase delivery. For instance, confirming a further £2 billion of funding for affordable housing, including funding for social rented homes, taking the total budget for the Affordable Homes Programme to over £9 billion. Other commitments included raising Housing Revenue Account borrowing caps by £1 billion to help local authorities in areas of high affordability pressure build more council homes, £8 billion of financial guarantees to support private sector building, including SMEs and Build to Rent housing, and £10 billion of new Help to Buy funding to help approximately 135,000 more people to buy a home by 2021.

26. **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)

27. **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)

The £1 billion increase in Housing Revenue Account caps is one element of the £15.3 billion package of financial support for housing announced in the Autumn Budget 2017. Together with the reforms to the planning system announced in the Housing White Paper it puts government on track to raise annual housing supply by the end of this Parliament to its highest level since 1970, and on track to reach 300,000 per year.

The government will monitor how local authorities respond to the opportunity of an additional £1 billion of borrowing headroom and consider whether any further action is needed.

High-demand areas with the greatest affordability pressures are particularly in need of affordable housing. Further detail on the criteria for assessing bids from local authorities for the additional headroom will be set out by the Ministry for Housing, Communities and Local Government (MHCLG) in due course.

28. 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)

The Housing White Paper set the framework for an ambitious strategy to build more homes faster in the places people want to live. The government has made strong progress—housing supply has increased by over 1.1 million since 2010 and the latest figures show that housing supply increased by 217,000 last year.

However, in acknowledgement of the need to go further, the government announced a comprehensive package of new policy and financial support to raise housing supply at Autumn Budget 2017. Key commitments included planning reforms to ensure that more land is available for housing and providing an additional £15.3 billion of new financial support for housing supply over the next five years to make sure that this land leads to new homes, which takes total support for housing to at least £44 billion over this period. This package will raise annual housing supply by the end of this Parliament to its highest level since 1970, and on track to reach 300,000 per year.

On March 5th, the Prime Minister announced the launch of the consultation on the revised National Planning Policy Framework (NPPF). The revision of the NPPF implements around 80 previously announced changes to planning policy, and is crucial for bringing forward more land in the right places.

Distributional analysis

29. 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)
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)

HM Treasury's distributional analysis publication has provided an unprecedented level of transparency, and we are committed to continuing this publication at future Budgets. This analysis deliberately considers the cumulative impacts of decisions taken by the current Chancellor, and HM Treasury's view remains that it is the impact of these decisions in accumulation—not at individual fiscal events—that provides the most meaningful assessment of the impact of tax and public spending measures on households. Nevertheless, HM Treasury will consider the Committee's recommendation for future publications.

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)

Annex A in HM Treasury's Autumn Budget 2017 distributional analysis document includes distributional analysis of all tax and public spending measures implemented (or planned to be implemented) between 2015–16 and 2019–20. This analysis does include the decision to freeze working-age benefits in cash terms, and the decision to reduce the scope and value of work allowances in Universal Credit.

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)

HM Treasury's distributional analysis publication currently breaks down measures by tax, welfare, and spending on public services. However, more detailed breakdowns are unlikely to be reliable. First, many of the measures in this analysis are underpinned by small sample sizes, and therefore the distributional impact of a specific measure is often much more uncertain than the cumulative effects of measures. Second, measures often interact with each other. These interactions mean that analysis of individual measures becomes sensitive to ordering effects as the distributional impact of one measure is often contingent on whether it is considered before or after the measure it interacts with, and the ordering of measures is entirely arbitrary. For this reason, a cumulative assessment gives the best representation of the intended overall policy effect.

**Equality impact assessment of the Budget**

The Treasury should use ONS and HMRC data to produce and publish robust equalities impact assessments of future Budgets, including the individual tax and welfare measures contained within them. A deficiency of data in respect of some protected
characteristics is not a reason for failing to produce an analysis in respect of others for which data is available. Nor should the risk of misinterpretation or methodological complexity preclude the publication of an Equalities Impact Assessment. Details on methodology and guidance on interpretation can be set out alongside the analysis, just as they are with the existing distributional analysis. (Paragraph 119)

As the Chancellor announced when giving oral evidence to the Committee, HM Treasury is engaging with the ONS and other organisations to improve the data available in this area, with a view to supporting decision-making at future Budgets. For legislation owned by HM Treasury, namely in the area of tax, HMRC already uses appropriate quantitative data in its published summary analysis of equality impacts, as provided in the Tax Information and Impact Notes (TIINs). These published TIINs accompany all tax legislation. This arrangement, introduced in December 2010 in the interest of promoting transparency, goes beyond the Government’s legal obligations and beyond what occurred prior to this date. Aware of the importance of this issue, HMRC is also actively working to improve its methodology and the quality of its publications in this area, including by engaging with relevant stakeholders.

For legislation not directly owned by HM Treasury, in areas such as welfare, other departments produce assessments of the impact on equalities as part of their internal advice on policy. They do this in line with their obligations under the Public Sector Equality Duty and take appropriate steps to promote transparency.

34. 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)

35. 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)

The government apologise if the differences between the TIINs for the VED diesel supplement and the general VED upratings have given rise to confusion.

Ahead of the Autumn Budget 2017 announcement to apply a VED supplement for new diesel vehicles, HM Treasury considered external data, including from industry sources, about the protected characteristics of purchasers of newly-registered cars, who are the only people affected by the measure. HMRC does not administer VED and therefore does not collect data on the protected characteristics of VED payers. However, the Department for Transport does publish statistics based on survey data including on the gender of registered keepers of cars and vans. These show that in 2016, 51% of cars were registered to a male keeper, 34% to a female, and the remainder were either registered to a company, to a person whose gender was unknown, or was between keepers. This was considered in the equalities assessment, and allowed for the judgement that car purchasers are more likely to be male than female.
As a result, HMRC will update the equalities description in the TIIN on the standard VED uprating measure to clarify that the protected characteristics of car owners are more likely to be male than female.

**Business Rates and the so-called ‘staircase tax’**

36. 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)

At Autumn Budget 2017 the government announced that the frequency of property revaluations for business rates would increase to every three years, instead of every five, following the next revaluation. Spring Statement announced that the next revaluation would be due in 2021. The government will monitor the impact of this change including on the appeals system before determining whether to move to even more frequent revaluations.

37. 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)

The government conducted a review of business rates which concluded at Budget 2016 with a package of reforms worth £9 billion by the end of the Parliament. From April 2017, 100% Small Business Rates Relief was permanently doubled and the thresholds of the relief were increased to ensure that 600,000 businesses, including small retailers, will not pay business rates again. In addition, 250,000 properties, including some high street shops, were taken out of the higher rate of business rates.

High street businesses will also benefit from bringing forward the switch from RPI to CPI indexation—which represents a cut in business rates every year—and is worth £4.1 billion by 2023.

The government is also looking more broadly at the overall taxation of the digital economy. The government is working internationally to ensure corporate tax rules deliver fairer results for certain digital businesses.

38. 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)
The government will legislate to address the so-called ‘staircase tax’, including reinstating and backdating Small Business Rate Relief. The government has published draft legislation for consultation. The consultation ended on 23 February 2018 and the government aims for the final legislation to be in place as soon as possible.

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

40. 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)

The government has previously committed to reviewing the use of RPI for indirect taxes once its fiscal consolidation plans have been implemented. This remains the government’s policy. Bringing forward the planned switch in indexation of the Business Rates multiplier to 2018 represents early progress on this commitment.

More generally, we welcome the steps that the Office for National Statistics has taken to improve the set of price statistics it publishes, including the development of CPIH. The Johnson Review of Consumer Price Statistics in 2015 recommended that the CPIH become the main measure of inflation in the UK. However, the statistic has only recently regained National Statistic status and we believe it needs time to establish a track record before it is considered for policy purposes.

Social care funding

41. 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)

When the Adult Social Care precept was first introduced, the distribution of the improved Better Care Fund (iBCF) was designed so that allocations are based on a robust Adult Social Care relative needs formula and also take into account the varying amounts councils could raise through the precept. Together, the iBCF and the Adult Social Care precept represent an important source of additional funding to supplement wider resources available to local authorities to deliver Adult Social Care services.

42. 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)
The Adult Social Care precept and the iBCF are together an important source of dedicated funding for Adult Social Care, but that is not to suggest that an authorities’ revenue from those sources reflects the total ‘required amount of spending’ for those services. Councils can also draw on wider resources from within their Core Spending Power, such as Revenue Support Grant and locally retained business rates, to meet their assessment of local Adult Social Care needs.

Funding baselines for the local government finance settlement were set in 2013–14 based on a comprehensive assessment of the relative needs and resources of councils. Since the Spending Review 2015 it is also the case that the allocation of Revenue Support Grant takes into account the main resources available to councils, including their 2015–16 council tax. This ensures that councils delivering the same set of services receive the same percentage change in settlement funding for those services.

The Secretary of State for Housing, Communities and Local Government has confirmed a full review of local authorities’ relative needs and resources through the Fair Funding Review and published a consultation in December 2017. A review of how authorities’ relative social care needs are taken into account in the distribution of retained business rates will form part of this Review. It will also involve the government taking a fresh look at how council tax income should be taken into account when redistributing business rates at local government finance settlements, and will also consider other potential sources of income available to councils. The government aims to implement a new system based on the findings of the review in 2020–21.

### Universal Credit

43. 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)

44. 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)

Analysis conducted by the Department for Work and Pensions shows that around 70% of Tax Credit recipients are paid monthly or four-weekly. Universal Credit (UC) mirrors the world of work by paying the majority of claimants in this way, ensuring that those who receive UC face the same financial choices as those supporting themselves solely through work. UC offers enhanced personal budgeting support via a mix of online, telephone, and face-to-face guidance to support claimants in managing their money. For claimants who need additional support, Alternative Payment Arrangements are also available in the form of more frequent payments, payments to both members of a couple individually, and payment of rent direct to landlords.
45. 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)

By contrast with the system that it replaces, work always pays under UC. Under the legacy welfare system, 800,000 individuals in employment lose between 80% and 100% of an additional hour of earnings in taxes and withdrawn benefits; all of these people will see an improvement in their incentives under UC. At Autumn Statement 2016, the government announced it would increase support for those progressing into work by lowering the taper rate from 65% to 63% as part of its commitment to build a welfare system that is fair for claimants and taxpayers, further strengthening the incentive for individuals to increase the number of hours they work. This change came into force in April 2017. The government is committed to keeping the taper rate under review in order to continue to support people to progress in work.

Assessment of the tax measures in the Autumn Statement

46. 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)

The government welcomes the Committee’s support for the government’s extension of withholding tax obligations to royalty payments, and payments made for certain other rights, in connection with UK sales. This measure builds on changes made in Finance Act 2016 to prevent multinationals that hold intellectual property in no or low-tax jurisdictions from artificially lowering their effective tax rates and thus gaining an unfair competitive advantage. The government published a consultation document on 1 December 2017 inviting comments from interested parties, including taxation bodies, on the detailed design of the measure to ensure that it is effective and enforceable. The consultation closed on 23 February 2018 and the government is carefully considering all responses.
Appendix B: Office for Budget Responsibility Response

I am writing in response to the Committee’s report on Autumn Budget 2017, focusing on the specific recommendations relating to the OBR.

Trade intensity and productivity

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)

Our November 2016 Economic and fiscal outlook incorporated a provisional estimate of the impact of the referendum vote to leave the European Union. In the absence of a meaningful basis on which to predict the precise outcome of the negotiations, this was based on a series of broad-brush assumptions about the economic and fiscal impact of Brexit that would be consistent with a variety of possible outcomes. As discussed below, when the Government has reached a Withdrawal Agreement that it is prepared to present to Parliament, we will be able to update those assumptions accordingly.

In that November 2016 forecast, we assumed that the vote to leave the EU would lead both to lower trade intensity and to lower trend productivity over our forecast than would otherwise be the case. But we did not calibrate these adjustments on any assumed direct relationship between the two.

Several empirical studies have attempted to establish dynamic relationships of this sort, with greater trade intensity leading to higher productivity growth as enhanced competition intensifies the pressure to innovate and through the technology transfer that arises from foreign direct investment. But it is not clear how useful these studies are as a quantitative guide to the potential impact of Brexit, especially over our five-year forecast horizon.

For example, much of the empirical evidence on the link between trade openness and productivity is drawn from cross-country growth regressions, where the bulk of the variation in the data comes from what happens in developing countries. Moreover, there are issues around how openness is measured and concerns about ‘endogeneity’—the possibility that the measures of openness employed in these studies may be picking up the influence of other factors that drive cross-country productivity growth differences, despite the researchers’ best efforts to control for such factors. In addition, it is not clear whether the results would carry across to what may be relatively modest additional trade frictions, when virtually all the evidence relates to increasing openness and very little to reducing it.
Most pertinently, given the concern expressed in the Committee’s report that an initial decline in trade intensity could worsen the outlook set out in our current forecast, such dynamic effects onto productivity are likely to take a considerable time to manifest themselves—most likely over decades rather than within the five-year horizon of our EFO. Moreover, the lags may be longer still in the Brexit context, since UK-based businesses are unlikely to choose to operate less efficiently simply because openness has declined.

**Basing forecasts on current Government policy**

The OBR uses the ONS’ migration forecasts as its input figure for migration in its economic forecast. These forecasts have been consistently above tens of thousands, which is in contradiction to the Government’s stated policy of reducing migration to the tens of thousands. (Paragraph 41)

The OBR is required by Parliament to base its forecasts on current Government policy and not on possible alternative policies. In this context, the Committee’s report notes the consistent assumption in our forecasts to date—borne out so far in practice—that that the Government will not succeed in its objective of reducing net inward migration to the tens of thousands (at least over our five-year forecasting horizon).

It is important to remember, however, that when we produce forecasts on the basis of current Government policy, we do so on the basis of those policy instruments that are in the Government’s direct control (such as tax rates and spending limits), not the achievement of its policy objectives. Most obviously, it is a Government policy objective to abide by its stated fiscal rules, but it is our job to assess whether the Government’s concrete policy decisions are consistent with achieving that policy objective. We do not assume that they necessarily are.

On the substance of our migration assumption, net inward migration has fallen significantly since the referendum, most probably reflecting weaker ‘pull factors’—the lower value of sterling has made it less attractive for foreigners to work here, while job creation in the rest of the EU has also picked up. This suggests that there is now a greater chance of the Government’s aspiration being met than in the past.

**Reassessing the impact of the vote to leave**

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)

In our November 2016 EFO, we set out as transparently as possible those elements of the economy and fiscal forecast revisions that were related to the referendum vote and those that were not. This was possible because little time had passed since the referendum and it was therefore reasonable to assign certain elements of our forecast diagnostics into each category. The fiscal effect was estimated to be stable at around £15 billion a year from 2018–19 to 2020–21.
In our subsequent EFO in March 2017 we explained that “We have not attempted to update the breakdown of our forecast revisions relative to an illustrative ‘no referendum’ scenario that we published in our November EFO. Over time, maintaining a meaningful counterfactual would be increasingly challenging—for example, how much of the movements in financial markets since November should be ascribed to participants reasessing the effects of Brexit and how much to other factors? The uncertainties to which such a counterfactual was subject would only increase.” Another year on, this remains true, and not just in respect of financial market prices. It is equally a matter for debate how household and business spending have been affected by the vote.

Even if we were able to develop an economic and market counterfactual for the referendum going the other way, generating the associated fiscal counterfactual would be a lengthy and resource intensive process for the OBR and supporting departments, on the scale of that required for our annual Forecast evaluation reports.

It is also important to remember that the November 2016 analysis was an attempt to quantify the likely impact of the vote to leave, with Brexit itself assumed not to occur until half way though the forecast. So rerunning this analysis—even if it was possible to do so in a meaningful way—would be an attempt to answer the question ‘What if we had never voted to leave?’ rather than ‘What if we change our minds now?’ This might provide ammunition for Remainers and Leavers to refight old battles, but it would do little to clarify the outlook looking forward from our present position.

**Transitional arrangements after Brexit**

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)

Our trade forecasts assume that the net effect of Brexit will be to reduce the trade intensity of the UK economy. This can be seen in the assumptions underpinning our November EFO. Import intensity (the ratio of imports to import-weighted domestic demand) has risen steadily for several decades and by around 1 per cent a year on average since 2008. We assume it will fall by around 1 per cent a year from 2019 until beyond our five-year forecast horizon. The UK’s export market share (the ratio of UK exports to UK-weighted world imports) has declined steadily for several decades and by just under 1 per cent a year since 2008. We assume the rate of decline will pick up to around 3½ per cent a year from 2019 until beyond the horizon.

These assumptions were calibrated by averaging the results of three major external studies published before the referendum. In that sense, they are consistent with a range of possible outcomes. As we discussed when we gave evidence to you in November, our assumptions

---

1 Specifically, we took the average estimated effect from studies by NIESR (The long-term economic impact of leaving the EU, National Institute Economic Review no. 236, May 2016), the OECD (The economic consequences of Brexit: A taxing decision, OECD policy paper no. 16, April 2016) and LSE/CEP (The consequences of Brexit for UK trade and living standards, March 2016). These represented a subset of the many studies that were presented before the referendum.
would not be consistent with a disorderly exit to WTO rules—‘crashing out’. But while they do assume a smooth adjustment to post-Brexit trading arrangements—in common with the Bank of England’s latest projections—they are not predicated on a multi-year transition or implementation period coming into force after 29 March 2019, as the decline in trade intensity begins immediately.

**Basing a forecast on the full Withdrawal Agreement**

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)

Once a Withdrawal Agreement with the EU has been reached and published, we will be able to incorporate it into our subsequent forecasts. (Note that we will not need to wait until Parliament has passed the associated legislation, just as we incorporate Budget measures into our forecasts before passage of the corresponding Finance Act.) We would, of course, explain the impact of the Agreement as transparently as possible, relative to the Brexit assumptions in our previous forecast. But we could not present the impact relative to a counterfactual in which Parliament rejected the agreement, as that would represent the evaluation of an alternative policy (and potentially an incompletely specified one) and would thus contravene the Budget Responsibility and National Audit Act.

The Government will presumably take the parliamentary timetable for consideration of the Agreement into account when deciding the dates of the Autumn Budget and Spring Statement. It would not be practical to produce an additional forecast between the two, not least because this would require several weeks of detailed input from many analysts across HMRC, DWP and other departments, as well as the OBR.

**The EU financial settlement**

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)
As the Committee’s report notes, since the referendum we have made the fiscally neutral assumption that expenditure transfers to the EU will cease at the end of 2018–19, but will be replaced by unspecified domestic spending equal to the transfers that we would have made if the UK remained a member of the EU. As we noted in Annex B of our November 2017 EFO, there are many uncertainties over the composition of this substitute spending. We noted that the Government might decide to continue to contribute to the EU budget for some purposes, that it was likely to make payments under the financial settlement, and that it might replace EU spending in the UK on areas such as agriculture and science, and on overseas aid.

Since our previous forecast, the European Commission and the UK Government have issued their joint report on progress during phase one of the Article 50 negotiations. You have asked the National Audit Office to consider the Treasury’s estimate of the cost of the financial settlement outlined in the joint report. We will present our own estimate consistent with the assumptions in our central forecast in our March 2018 EFO. This will allow us to show the extent to which a financial settlement on these terms would leave additional money available for domestic spending, within the envelope implied by our current fiscally neutral assumption.

**Stamp duty land tax relief for first-time buyers**

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)

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)

Let me take this opportunity to provide some further explanation of the assumptions that were incorporated into our November forecast:

- **House prices**: we assumed that the first-time buyer relief would increase house prices by 0.3 per cent. This refers to the average across all properties. The effect on first-time buyer purchases would be higher. As noted in the EFO, we assumed a 2-for-1 effect on prices from the SDLT saving—e.g. at £200,000 the SDLT saving is 0.75 per cent (£1,500) so the price increase would be 1.5 per cent (£3,000). This is a central estimate around which there is much uncertainty.

- **Additionality**: The 3,500 additional first-time buyers referred to in the EFO is a ‘per year’ figure across the five years of the forecast. It would be reasonable to assume that this effect would persist at about that level beyond the forecast period. This is our central estimate of the number of first-time buyer purchases that would not otherwise have taken place. Again, it is subject to uncertainty.

I have copied this letter to Richard Hughes, Director of Fiscal Group at the Treasury.

Robert Chote
Chairman