HM Government

Spending Review and Autumn Statement 2015: policy costings

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1 Introduction

1.1 This document sets out the assumptions and methodologies underlying costings for tax and Annually Managed Expenditure (AME) policy decisions announced since Summer Budget 2015, where those policies have a fiscally significant impact on the public finances. These costings are all submitted to the independent Office for Budget Responsibility (OBR) for their certification. This continues the practice established at June Budget 2010 and the principles outlined in '*Tax policy making: a new approach*', published alongside June Budget 2010.[1] This publication is part of the government's wider commitment to increased transparency.

1.2 Chapter 2 presents detailed information on the key data and assumptions underpinning the costing of policies in the Spending Review and Autumn Statement 2015. Each note sets out a description of the measure, the base, the methodology for the costing (including relevant adjustments for behavioural responses) and highlights any areas of additional uncertainty, beyond those inherent in the OBR's forecast. All costings are presented on a National Accounts basis.

1.3 Annex A, by the OBR, sets out the approach the OBR has taken to scrutiny and certification of the costings, and highlights areas of particular uncertainty.

[1] The government's approach to policy costings is set out in chapter 1 of '*Budget 2011 policy costings*'. This explains in detail what policy costings are, which measures they cover and their role in the public finance forecast. It gives further information on the methodology for producing costings, including estimating the static, behavioural and wider economy impacts.

2 Policy costings

The following policy costings are included in this chapter:

- Apprenticeship Levy (funding employer apprenticeship scheme)
- Business Rates: small business relief extension
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- Stamp Duty Land Tax: higher rates on additional properties
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Apprenticeship Levy (funding employer apprenticeship scheme)

Measure description

This measure introduces an apprenticeship levy which is a charge of 0.5 per cent of the gross pay bill of employers to fund apprenticeships. Employers will receive an allowance of £15,000 per year to offset against the levy. This means that only employers with a pay bill of more than £3m per year will pay anything and only on the portion of the pay bill above this threshold.

This measure will be effective from April 2017.

The tax base

The tax base consists of the gross pay bill of all employers in the UK estimated from HMRC administrative data.

The tax base grows over the forecast period in line with the OBR Autumn Statement 2015 forecast for earnings and employment growth.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	+2,730	+2,845	+2,970	+3,095

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base.

Business Rates: small business relief extension

Measure description

Small Business Rates Relief (SBRR) provides 50 per cent relief for eligible businesses, and is funded through the business rates system. This measure doubles the relief given to businesses eligible for SBRR for a further 12 months from 1 April 2016, at Exchequer cost. It offers 100 per cent relief up to a rateable value of £6,000, with relief tapering to the SBRR threshold of £12,000 rateable value.

The cost base

The primary data sources are National Non-domestic Rates 1 (NNDR1) returns provided by local authorities and published by the Department for Communities and Local Government. The tax base for this measure is the amount of relief given to businesses with a single hereditament (non-domestic property) eligible for SBRR.

Costing

The starting point for the cost is the NNDR1 returns forecast for the cost of SBRR for 2014-15. The cost base grows over the forecast period by RPI by which business rates are uprated annually.

Further adjustments are made to the costs to reflect:

1. Barnett consequentials: Business Rates are devolved to Scotland, Wales and Northern Ireland.
2. Business tax adjustments: business rates are deductible for corporation tax for companies, and income tax Self-Assessment for the self-employed. To estimate this impact, an effective business tax rate, an average of corporation tax and income tax rates paid by small businesses, is assumed.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-700	+40	+15	0	0

Areas of uncertainty

The main uncertainties in this costing relate to the effective tax rate and the number of businesses without tax liability.

Enterprise Zones

Measure description

This measure will establish new Enterprise Zones (EZs) and extend several existing EZs. The policy offers three incentives for businesses locating on site, and local authorities. This measure will be effective from April 2016.

Business Rate Discount

This measure will create new EZs and extend several existing EZs which will offer business rates discounts. Local authorities are able to offer businesses located in EZs a discount up to the state aid de minimis level over a five year period. The maximum available discount is £55,000 a year, up to a total of £275,000 over five years. Businesses have to be located in an EZ by April 2022 to qualify.

Enhanced Capital Allowances

This measure enables companies in designated assisted areas within EZs to claim 100 per cent enhanced capital allowances (ECAs) against their taxable profits. This will apply in the following Enterprise Zones: Infinity Park Extension Derby, Humber EZ, M62 Corridor EZ, Luton Airport EZ, Cheshire Science Corridor EZ, Carlisle Kingsmoor Park EZ, Hillhouse Chemicals and Energy Enterprise EZ, Ceramics Valley, Cornwall Aerohub+, and North East Round 2 EZ.

Business Rates Retention

This measure will also create new EZs and extend several existing EZs which will benefit from 100 per cent of business rates growth retention as opposed to the usual 50 per cent.

The cost base

The cost base is estimated using administrative data from local authorities.

The tax base for ECAs consists of the expenditure wholly within these EZs which will qualify for the 100 per cent ECAs. This has been estimated over the forecast period using data provided by the Local Enterprise Partnerships.

Costing

The costing is estimated by applying the pre- and post-measure cost regimes to the cost base described above.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	neg	-10	-15	-15	-5

Areas of uncertainty

The main uncertainties in this costing relate to the size of the cost base.

Stamp Duty Land Tax: higher rates on additional properties

Measure description

Purchasers of additional properties such as buy to let properties and second homes will pay higher rates of Stamp Duty Land Tax (SDLT) with effect from 1 April 2016. The higher rates will be 3 percentage points above the current SDLT rates.

The higher rates of SDLT are not intended to apply to corporates or funds making significant investments in residential property given the role of this investment in supporting the government's new housing agenda. The government will shortly issue a consultation considering whether an exemption for corporates and funds owning more than 15 residential properties is appropriate

The tax base

The tax base has been estimated by combining price and volumes data from the Council of Mortgage Lenders, Census 2011 and administrative data from SDLT and Council Tax.

The tax base grows over the forecast period in line with the OBR Autumn Statement 2015 forecasts for residential SDLT, residential transactions and average house prices.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above.

The costing accounts for a behavioural response whereby the volume of affected transactions is reduced or taxpayers find ways to avoid paying the additional surcharge.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+30	+625	+700	+760	+825	+880

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

Stamp Duty Land Tax: bringing forward payments

Measure description

This measure will make Stamp Duty Land Tax (SDLT) filing and payment easier and faster. As part of this the SDLT return filing and payment window will be reduced from 30 days to 14 days. The changes will be implemented in 2017-18.

The tax base

The tax base consists of those transactions that pay SDLT in the financial year which under the proposed measure will be brought forward into the previous financial year.

The tax base grows over the forecast period in line with the OBR's Autumn Statement 2015 forecast for SDLT receipts.

Costing

The costing is estimated by applying the pre- and post-measure tax payment regimes to the tax base described above.

The costing accounts for a behavioural response whereby SDLT taxpayers adjust their behaviour around the new payment deadlines.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	+110	+10	+10	+10

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

Capital Gains Tax: reduce payment window for residential property

Measure description

This measure reduces the payment window for Capital Gains Tax (CGT) due on residential property from 10-22 months to 30 days after the transaction.

This measure will be effective from April 2019.

The tax base

The tax base consists of all individual and trust taxpayers who incur CGT on the sale of residential property.

The tax base grows over the forecast period in line with OBR Autumn Statement 2015 determinants for the indexed house price forecast and property transaction volumes.

Costing

The costing is estimated by applying the pre- and post-measure payment regimes to the tax base described above.

The costing includes a behavioural effect to account for those who continue to pay on the pre-measure timescales due to error or lack of awareness. It also includes a small compliance benefit.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	0	0	+930	+230

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

Temporary accommodation: impact of new funding mechanism

Measure description

The temporary accommodation management fee is payable with Housing Benefit in respect of households placed in temporary accommodation. This measure removes this additional payment from April 2017.

Local authorities will be given more than equivalent funding directly, to enable them to manage temporary accommodation and homelessness pressures as they see fit.

The cost base

The temporary accommodation management fee is subsumed within the annual Housing Benefit subsidy from the Department for Work and Pensions to local authorities. The cost base is consistent with OBR Autumn Statement 2015 forecast determinants.

Costing

The costing has been estimated by applying the management fee to the number of households living in temporary accommodation.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
AME savings	0	0	+225	+235	+245	+260
Departmental expenditure	0	0	-235	-245	-255	-270

Welfare cap impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total welfare cap impact	0	0	+225	+235	+245	+260

Areas of uncertainty

The main uncertainty in the costing relates to the pre-measure baseline.

Renewable Heat Incentive: capping costs and improving value for money

Measure description

This measure will reform the Renewable Heat Incentive (RHI) from 2016-17 to 2020-21, improving value for money and including additional budget management controls (budget caps). Funding of the scheme will continue to rise to £1.15bn in 2020-21.

In each year, the budget cap will provide a backstop on expenditure. Should the forecast expenditure on existing applications and accreditations reach the agreed budget for that year or any future year, the Secretary of State will be able to take action to suspend the scheme to new applications.

The cost base

Current RHI deployment data and expected deployment in the remainder of the year has been used to calculate expected spend in 2015-16. The Department of Energy & Climate Change (DECC) publishes its latest deployment data on a monthly basis[1]. DECC expects current deployment levels to increase in future years in line with the level of the agreed budget.

Costing

The costing is derived by assuming that spend reaches the agreed budget level in each year from 2016-17 to 2020-21, which will be supported by improved cost control as set out above.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+30	+100	+245	+460	+690

Areas of uncertainty

The main uncertainty in the costing relates to the demand-led nature of the scheme, which means that deployment is uncertain. There is also uncertainty around the amount of heat that will be generated by installations participating in the scheme, for example due to variability in weather. Similarly the production of biomethane can vary due to factors such as the availability of feedstock.

[1] https://www.gov.uk/government/collections/renewable-heat-incentive-statistics

Landfill Communities Fund: reform

Measure description

This measure will cap the value of the Landfill Communities Fund (LCF) tax credit at £39.3m for 2016-17. Landfill operators will also no longer be able to use third parties to fund the final 10 per cent of any tax relievable contribution to the LCF.

This measure will be effective from 1 April 2016.

The tax base

The tax base consists of registered landfill operators who contribute to the LCF.

The maximum size of contributions received to the fund grows over the forecast period in line with the OBR Autumn Statement 2015 forecast for Retail Price Index.

Costing

The costing is estimated by applying the pre- and post-measure cap for the value of the LCF. The value of the tax credits reduce the level of landfill tax receipts, so when the maximum size of the fund is reduced, we see an increase in tax receipts. The costing includes an adjustment to account for potential behavioural responses

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+20	+20	+20	+20	+20

Areas of uncertainty

The main uncertainties in this costing relate to the size of the behavioural response.

Flood Re: levy and premiums income

Measure description

This measure will provide insurers with the ability to purchase subsidised reinsurance from the Flood Reinsurance Scheme (Flood Re), allowing them to pass the savings to consumers to help promote affordability for those who are least able to pay. The price insurers will pay to cede policies to Flood Re (the premium thresholds) are payable by insurers according to council tax bands or equivalent. Benefits are targeted at the lower council tax bands, and it is expected that these will be passed on to policy holders. The regulations designating Flood Re came into force on 11 November 2015. The Scheme is expected to be authorised by the Prudential Regulation Authority (PRA) by April 2016.

The cost base

This data set is based on Flood Re's internal modelling as submitted to the PRA, the financial regulator who authorises companies to operate as insurers.

Costing

The costing is based on the forecasted net position of income and expenditure as set out by Flood Re covering the first five years of the Scheme's operation. A behavioural adjustment was made to account for changes in demand for flood insurance.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-10	+75	+65	+70	+70	+65

Areas of uncertainty

The main uncertainties in this costing relate to the size of the behavioural response.

Company Car Tax: retain the diesel supplement until 2021

Measure description

Currently, the appropriate percentage used in establishing the taxable benefit for a diesel company car is 3 percentage points higher than the petrol car equivalent. This supplement was due to be removed in April 2016. This measure delays this removal until April 2021.

The tax base

The tax base is estimated using data on taxable benefits in kind reported by employers to HMRC. The value of the car benefit tax base is projected using a range of assumptions, including increasing car prices in line with the Consumer Price Index and projected reductions in CO_2 emissions.

Costing

The costing is calculated by applying pre- and post-measure regimes to the tax base described above, taking into account the distribution of tax rates over company cars of different CO_2 emission levels.

Increases in the fuel benefit charge are assumed to trigger reductions in take-up. Exchequer yield is adjusted to take into account additional employees leaving the fuel benefit charge in response to this measure.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+280	+275	+275	+265	+265

Areas of uncertainty

The main uncertainty in this costing relates to the size of the behavioural response.

Insurance Premium Tax: reform to motor insurance claims rules

Measure description

Legislative changes will be made to abolish general damages for all low value soft tissue road traffic personal injury claims. The right to compensation for financial loss suffered and the cost of any medical treatment required will be maintained. This measure applies in England and Wales only.

Abolishing general damages claims will generate savings to insurers and it is expected that these savings will be passed on to consumers in the form of lower prices for motor insurance policies. The measure therefore has an impact on Insurance Premium Tax (IPT) revenues.

This measure will be effective from April 2017.

The tax base

The tax base consists of all motor insurance premiums that are currently covered by the standard rate of IPT.

The tax base grows over the forecast period in line with the OBR Autumn Statement 2015 forecast for IPT.

Costing

The costing is calculated by assessing how the reduction in pre-tax prices for motor insurance policies affects IPT revenues. A behavioural response is then applied to account for consumers increasing the quality of the motor insurance they purchase in light of the lower post-tax prices.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	-35	-45	-55	-55

Areas of uncertainty

The main uncertainty in this costing relates to the size of the behavioural response.

Stamp Duty Reserve Tax: options abuse

Measure description

Stamp Tax on Shares will be applied to the higher of the market value of the shares or the option strike price. This will apply where shares are transferred to a depository receipt issuer or clearance service on exercise of an option.

The measure will be effective from April 2016.

The tax base

The tax base consists of the transfers of shares to depositary receipt issuers and clearance services that were lower than the market price.

The tax base grows over the forecast period in line with the OBR's Autumn Statement 2015 forecast for Stamp Tax on Shares.

Costing

The costing is estimated by applying the rate for Stamp Tax on Shares to the difference between the reported value and the market value of the transactions.

A small adjustment has been made to account for behavioural responses.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+35	+40	+40	+40	+45

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

Venture Capital Schemes: restrictions on use

Measure description

This measure excludes energy generation activities from the Enterprise Investment Scheme, the Seed Enterprise Investment Scheme and Venture Capital Trusts. This change ensures that the tax-advantaged venture capital schemes continue to provide effective support to higher-risk smaller businesses, and provide value for money for the taxpayer.

This measure covers two changes:

- the provision of reserve energy generating capacity, as well as the generation of renewable energy benefiting from other government support by community energy organisations, will no longer qualify for investments under the tax-advantaged venture capital schemes and will not be eligible for Social Investment Tax Relief (SITR) when the latter is enlarged;
- the exclusion of all remaining energy generation activities from the as well as from the enlarged SITR.

The first change will take effect for investments made on or after 30 November 2015. The second change will take effect for investments made on or after 6 April 2016.

The tax base

The tax base consists of the value of investment raised through the venture capital schemes.

The tax base grows over the forecast period in line with the OBR Autumn Statement 2015 forecast for growth in equity prices.

Costing

The costing is estimated by applying the current tax relief regime to the pre- and post-measure tax base.

The costing accounts for a behavioural response whereby a proportion of the investment excluded is reinvested elsewhere through these schemes.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+15	+95	+95	+95	+90	+95

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

Capital allowances and leasing: reducing avoidance

Measure description

This anti-avoidance measure counters two types of avoidance involving capital allowances and leasing. These changes will prevent companies from artificially lowering the disposal value of plant and machinery for capital allowances purposes, and make any payment received for agreeing to take responsibility for tax deductible lease related payments subject to tax as income.

This measure will be effective from 25 November 2015.

The tax base

The tax base is estimated using the tax at risk as a result of the avoidance activity.

The tax base grows over the forecast period in line with the OBR Autumn Statement 2015 forecast for investment.

Costing

The costing consists of the tax at risk being addressed by this anti-avoidance measure. The costing accounts for behavioural responses by the population affected by the measure.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+5	+25	+40	+30	+20	+20

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

Corporation Tax: disposals of intangible fixed assets to related parties

Measure description

This measure amends the intangible fixed asset rules to clarify the tax treatment on transfers of assets to partnerships. It will ensure that partnerships cannot be used in arrangements that seek to obtain a tax relief for their corporate members in a way that is contrary to the intention of the regime.

This measure will be effective from 25 November 2015.

The tax base

The tax base consists of disposals of intangible assets to partnerships used to 'restart the clock', therefore generating corporate tax relief that is unintended by the legislation. This will not impact partnerships where all the members are individuals.

The tax base grows over the forecast period in line with trends in historic amortisation rates.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. The costing includes a behavioural effect by the population affected.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+15	+45	+70	+35	+30	+25

Areas of uncertainty

The main uncertainty in this costing relate to the size of the tax base.

Company distributions: preventing avoidance

Measure description

The measure amends the Transactions in Securities rules and introduces a Targeted Anti-Avoidance Rule. These changes will prevent a tax advantage from being obtained in certain situations where a person receives a capital return on their shares where they might otherwise have received income.

This measure will be effective from April 2016.

The tax base

The tax base is estimated by reviewing transactions where a capital return on shares occurred without triggering existing Transactions in Securities rules, and where it appears that the main purpose, or one of the main purposes, of the transaction was to obtain a tax advantage.

The tax base grows over the forecast period in line with the OBR Autumn Statement 2015 forecast for equity prices and taking into account the change in differential between Capital Gains Tax (CGT) and dividend rates from April 2016.

Costing

The costing is estimated by applying the CGT and dividend tax regimes to the tax base described above.

The costing accounts for a behavioural response whereby taxpayers will find ways to reduce their tax burden as a response to this change.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	neg	+35	+20	+15	+10

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

General Anti-Abuse Rule: penalties

Measure description

This measure introduces a new penalty of 60 per cent of tax due to be charged in all cases successfully tackled by the GAAR. It also introduces small changes to the GAAR's procedure to improve its ability to tackle marketed avoidance schemes.

This measure will be implemented in 2016.

The tax base

The tax base comprises tax avoided by highly abusive arrangements in personal and corporate tax. Those affected are likely to be very affluent individuals or large corporates that undertake highly contrived tax avoidance.

The tax base grows over the forecast period in line with OBR Autumn Statement 2015 determinants for growth in earnings and profits.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above.

The costing includes a behavioural effect to account for taxpayers who are deterred from using abusive avoidance schemes due to the introduction of the penalty.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	neg	+10	+20	+25	+5	+5

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

Making Tax Digital: reducing errors through record keeping

Measure description

This measure will require businesses, self-employed people and landlords to integrate electronic record keeping with online tax reporting using business accounting software and to update their tax information at least quarterly to HMRC using these digital tools. The software, which will include apps for mobile devices, will include minimum standard functionality and data capture that prevents some error and promotes compliance. The use of software will reduce incidences of errors in tax returns, saving the public money.

These requirements will apply to most businesses including companies, sole traders, self-employed people, partnerships and landlords. It will not apply to employees, or pensioners, with a secondary income source from self-employment or property and whose gross income from this secondary source is under £10,000 per year.

The taxes in scope for this measure are Income Tax (IT), National Insurance Contributions (NICs), Corporation Tax (CT) and Value Added Tax (VAT).

The measure will be implemented for IT and NICs from April 2018, VAT from April 2019 and CT from April 2020. The roll out will be staggered by regime and in each case the year prior to mandating for each regime will consist of testing amongst a limited cohort of customers.

The tax base

The tax base consists of the CT, IT, NICs and VAT lost due to non-compliance by small businesses as a result of error and failure to take reasonable care. The tax base grows over the forecast period in line with receipt projections and VAT theoretical liabilities.

Costing

The costing is estimated by applying a behavioural response to the proportion of the tax base impacted by this measure. This response captures the impact of taxpayers improving their compliance as a result of the measure through better, more timely record keeping and the prevention of some errors.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	neg	+10	+300	+610

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

Corporation Tax: special rate on restitution payments

Measure description

This measure applies a special rate of corporation tax of 45 per cent to be charged on the interest element of restitution awards resulting from litigation against HMRC.

The measure was effective from October 2015 and is included in Finance (No.2) Act 2015.

The tax base

The tax base consists of the restitution-based interest element of the OBR's Autumn Statement 2015 forecast of litigation liabilities over the scorecard period.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above.

The costing includes an adjustment to account for behavioural responses by the population affected.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+270	+55	+55	+75	+100	+115

Areas of uncertainty

The main uncertainties in this costing relate to the size and distribution of the tax base.

HMRC Fraud and Error: new contracts

Measure description

This measure introduces a new contract, through the Debt Market Integrator, between HMRC and debt collection agencies to collect tax credit debt. This continues the existing working practices of the current contract of Extending Tax Credit Debt Collection, which ends in June 2016.

The tax base

The tax base for this measure is the new tax credit debt generated each year net of debt recovered by existing HMRC resources.

The tax base is estimated over the forecast period by accounting for existing measures affecting tax credit debt.

Costing

The costing is based on estimated private sector capacity and applying recovery rates to the tax base described above.

The costing includes an adjustment to account for debts that would clear themselves in absence of the policy change.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+30	+50	+80	+100	+105

Welfare cap impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total welfare cap impact	0	+30	+50	+80	+100	+105

Areas of uncertainty

The main uncertainty in this costing relates to the size of the tax base.

Department for Work and Pensions (DWP): fraud and error capacity

Measure description

This measure transfers 200 staff members currently undertaking fraud investigation activity in the DWP to undertake compliance activity. The transfer will begin in 2015-16, with a view to being in place at the start of 2016-17.

The cost base

The cost base is the value of fraud investigation and compliance investigation activity being undertaken in 2014-15. This is estimated from the Fraud Referral and Intervention Management System dataset which contains information on the volume and value of fraud and compliance investigations undertaken.

Costing

The costing is calculated by estimating the impact on annually managed expenditure (AME) that each fraud and compliance investigator has in the 2014-15 baseline. The final costing is the AME per fraud investigator multiplied by the number of investigators transferring, subtracted from the AME figure per compliance investigator multiplied by the number of investigators transferring. Adjustments are made to take account of potential lags associated with training the investigators transferring.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	neg	+35	+35	+35	+40

Welfare cap impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total welfare cap impact	0	neg	+25	+25	+25	+30

Areas of uncertainty

The main areas of uncertainty relates to the potential yield of investigators transferring across to complete compliance work and whether new work undertaken will be of lower value than current work.

DWP Fraud and Error: local authority incentive scheme

Measure description

This measure extends the Fraud and Error Reduction Incentive scheme (FERIS), which was due to end in 2015-16, to cover financial years 2016-17 and 2017-18. FERIS provides performance related incentives to local authorities if they detect and correct more fraud and error in the Housing Benefit caseload.

The cost base

The cost base is taken from Housing Benefit administrative data on the total value of downward adjustments made to Housing Benefit awards by local authorities in 2012-13 and 2013-14.

Costing

The costing is calculated by multiplying the uplift in local authority performance estimated to be driven by the incentive scheme by the estimated saving to AME per £1 adjustment to Housing Benefit award.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+55	+50	-10	0	0

Welfare cap impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total welfare cap impact	0	+50	+45	-10	0	0

Areas of uncertainty

The main uncertainties in the costing relate to the potential engagement of local authorities with the scheme, and the relative uplift in performance that local authorities will achieve.

Tax credits: maintain taper and income threshold

Measure description

Compared to announcements at Summer Budget 2015, this measure will:

- reduce the taper rate from 48 per cent to 41 per cent of gross income from April 2016; and
- increase the income threshold at which the taper rate is applied to the tax credits award from £3,850 to £6,420.

This measure will be effective from April 2016.

The tax base

The cost base is estimated using the OBR's Autumn Statement 2015 forecast for total tax credits expenditure.

Costing

The costing is estimated by applying the pre- and post-measure eligibility criteria to the tax base described above. The tax base for the measures summarised above will reduce in later years due to the migration of tax credits customers to Universal Credit. This is accounted for on an expenditure basis. This costing also includes the consequential changes to transitional protection in Universal Credit.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-3,385	-2,875	-1,735	-910	-465

Welfare cap impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total welfare cap impact	0	-3,385	-2,875	-1,735	-910	-465

Areas of uncertainty

The main area of uncertainty is the impact of Universal Credit migration on the composition of the remaining tax credits caseload.

Universal Credit: updated delivery schedule

Measure description

Under the revised Universal Credit (UC) transition and migration plan, the period when new claims to the legacy benefits system are closed and households make claims to UC instead will be extended. This process begins in May 2016 and is completed in June 2018. All residual legacy benefit caseloads will move onto UC by 2021.

The cost base

The cost base is estimated using DWP's Policy Simulation Model and Integrated Forecasting Model for Universal Credit. The cost base is consistent with OBR Autumn Statement 2015 forecast determinants.

Costing

The costing is estimated by calculating the difference between the pre- and post-measure UC marginal expenditure.

There are no behavioural impacts included in the costing.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+60	+250	+225	+70	-215

Welfare cap impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total welfare cap impact	0	+60	+250	+225	+70	-215

Areas of uncertainty

The biggest area of uncertainty is changes in economic determinants, which may affect the UC caseload and its composition.

Universal Credit: uprate Minimum Income Floor with National Living Wage

Measure description

This measure increases the Minimum Income Floor (MIF) earnings threshold in Universal Credit (UC) in line with the National Living Wage rather than the National Minimum Wage. It applies to self-employed claimants aged over 25 from April 2016. The MIF is the level of earnings that a self-employed person has to earn in order to be entitled to UC.

The cost base

The cost base is estimated using DWP administrative data and is consistent with OBR Autumn Statement 2015 forecast determinants.

Costing

The costing is calculated by assessing the impact of the change on average entitlement to UC of the affected caseload. The result is then profiled against the rollout caseload.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	neg	+10	+55	+120	+180

Welfare cap impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	neg	+10	+55	+120	+180

Areas of uncertainty

The main areas of uncertainty relate to the composition of the UC caseload.

Housing Benefit: limit social sector rates to the equivalent private sector rate

Measure description

This measure limits social sector rents eligible for Housing Benefit (HB) to the level of the relevant Local Housing Allowance rate that applies in the private rented sector, including the Shared Accommodation Rate for single claimants under 35 who do not have dependent children. It will be effective from 1 April 2018, affecting all new tenancies from 1 April 2016.

The cost base

The cost base is estimated using the OBR's Autumn Statement 2015 forecast of Housing Benefit expenditure in the social rented sector.

Costing

The costing calculates the difference in expenditure between the pre- and post-measure regimes in steady state, and then adjusts this in line with the estimated build-up over time of the numbers affected by the measure. There are no significant behavioural responses included in the costing.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	0	+120	+170	+225

Welfare cap impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total welfare cap impact	0	0	0	+105	+155	+205

Areas of uncertainty

The main uncertainty in this costing relates to the size of the behavioural response of social landlords.

Housing Benefit and Pension Credit: limit temporary absence

Measure description

This measure reduces the duration for which Housing Benefit (HB) and Pension Credit (PC) will be paid for a claimant who is temporarily absent from Great Britain from 13 weeks to 4 weeks from April 2016. Exemptions will apply in particular circumstances for up to 26 weeks, for example, for the death of a family member, if a claimant or their dependant requires medical treatment abroad, or for members of certain professions who spend time abroad.

The cost base

The cost base is estimated using data from the International Passenger Survey. The cost base is consistent with OBR Autumn Statement 2015 forecast determinants.

Costing

The costing is an estimate of the change in PC and HB expenditure on claimants spending more than 4 weeks abroad compared to the 13-week rule. An adjustment has been made to account for behavioural responses by the affected population.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+25	+20	+15	+10	+10

Welfare cap impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total welfare cap impact	0	+20	+20	+15	+10	+10

Areas of uncertainty

The main area of uncertainty relates to the size of the cost base and the behavioural response.

Tax-Free Childcare: revised eligibility criteria

Measure description

Tax-Free Childcare will commence from early 2017.

Under current policy, Tax-Free Childcare will be available to all working families where both parents or a lone parent have an income of at least 8 hours a week at the National Living Wage (or National Minimum Wage if under 25), and where neither parent is an additional rate tax payer. This means both parents and lone parents should each be earning under £150,000 per year.

This measure will increase the minimum income requirement to 16 hours at the National Living Wage per parent (or National Minimum Wage if under 25), and reduces the income cap to £100,000 per parent.

The tax base

The tax base consists of all families eligible for Tax-Free Childcare. The tax base grows over the forecast period in line with the Tax-Free Childcare forecasting model, which is consistent with the OBR Autumn Statement 2015 forecast.

Costing

The costing is estimated by applying the pre- and post-measure eligibility criteria to the tax base described above.

As some families will no longer be eligible for Tax-Free Childcare, they may choose to remain on Employer Supported Childcare. This is accounted for in the costing.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+5	+65	+85	+105	+120

Welfare cap impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total welfare cap impact	0	+5	+80	+95	+110	+125

Areas of uncertainty

The main uncertainties in this costing relate to the size of the behavioural response.

Childcare: refinements to the 30 hour entitlement for parents of 3 and 4 year olds

Measure description

This measure extends the eligibility of extension of Free Entitlement to childcare by refining the in-work rule. Eligibility is extended to cases where a parent or their partner is in work and the other parent is disabled or a carer; or where a parent or their partner is taking time away from work on paid sickness or parental leave.

This measure will be effective from September 2017.

Parents who are now eligible for the extension and who use more than 15 hours of childcare will pay for fewer hours of childcare. This will have an Exchequer impact on Tax-Free Childcare and tax credits.

The tax base

The tax base consists of all families with a 3 year old or 4 year old child in England who are not currently working for reasons such as maternity, paternity, adoption and sick leave.

The tax base is estimated using population projections agreed with the OBR Autumn Statement 2015 forecast for total tax credits expenditure and Tax-Free Childcare.

Costing

The costing is estimated by calculating the difference between the pre- and post-measures regimes. The costing accounts for a behavioural response by the eligible population.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+5	+5	+5	+5	+5

Welfare cap impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total welfare cap impact	0	+5	+5	+5	+5	+5

Areas of uncertainty

The main uncertainty in this costing relates to the size of the tax base.

Pensions automatic enrolment: align with start of tax year

Measure description

This measure delays the next two scheduled increases in automatic enrolment (AE) minimum contribution rates by six months each, to align these changes with the start of the tax year. As a result the planned increase in October 2017 (from 2 per cent to 5 per cent) will be postponed until April 2018, and the planned increase in October 2018 (from 5 per cent to 8 per cent) will be postponed until April 2019.

The tax base

The tax base is individuals in the AE eligible population that contribute into a workplace pension as a consequence of AE. The tax base is estimated using data from the Employer's Pension Provision survey 2013, the Inter Departmental Business Register and DWP internal modelling. Pensionable earnings of individuals are estimated using the Annual Survey of Hours and Earnings 2014 and relevant determinants from the OBR's Autumn Statement 2015 forecast.

Costing

The Exchequer impact is calculated by applying the pre and post-measure contribution rates to the tax base described above.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	+390	+450	-10	-10

Areas of uncertainty

The main area of uncertainty is around the size of the tax base.

Pension Credit Savings Credit: freeze

Measure description

This policy sets the level of the Savings Credit maximum in Pension Credit so that Pension Credit awards for those receiving Savings Credit are frozen where income is unchanged. Any rise in income should offset any fall in Savings Credit. The single rate of the Savings Credit threshold rises by 5.8 per cent and the couple rate by 5.5 per cent. This measure will be effective from April 2016.

The cost base

The cost base is the annual forecast expenditure for Pension Credit and Housing Benefit for pensioners. The cost base is consistent with OBR Autumn Statement 2015 forecast determinants.

Costing

The costing is given relative to a baseline scenario where the single rate of the Savings Credit threshold rises by 3.5 per cent and the couple rate by 3.3 per cent. The savings are derived by multiplying forecast caseloads with the changes to Savings Credit and Housing Benefit rates, given the interaction between the benefits.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+135	+130	+125	+125	+120

Welfare cap impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total welfare cap impact	0	+135	+130	+125	+125	+120

Areas of uncertainty

The main uncertainty relates to the projections of the caseload and the behavioural response of the population targeted.

Social care reforms: updated implementation date

Measure description

Under the government's announcement of 17 July 2015, social care reforms will be deferred to April 2020. This has consequential impacts on disability benefit spending.

The cost base

The cost base is the original forecast expenditure on Attendance Allowance, Disability Living Allowance and Personal Independence Payment, calculated using administrative data sources and OBR Autumn Statement 2015 economic determinants.

Costing

The costing estimates the impact of moving the start date to April 2020.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+105	+110	+100	+75	-75

Welfare cap impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total welfare cap impact	0	+105	+110	+100	+75	-75

Office for
Budget
Responsibility

Certification of policy costings

A Spending Review and Autumn Statement 2015 policy measures

Overview

A.1 Our *Economic and fiscal outlook (EFO)* forecasts incorporate the expected impact of the policy decisions announced in each Budget and Autumn Statement. In the run-up to each statement, the Government provides us with draft estimates of the cost or gain from each policy measure it is considering. We discuss these with the relevant experts and then suggest amendments if necessary. This is an iterative process where individual measures can go through several stages of scrutiny. After this process is complete, the Government chooses which measures to implement and which costings to include in its scorecard. We choose whether to certify the costings as 'reasonable and central', and whether to include them – or alternative costings of our own – in our forecast.

A.2 In this forecast, we have certified all the costings of tax and annually managed expenditure (AME) measures that appear in the Government's main policy decisions scorecard as reasonable and central. But we were unable to certify the financial transaction costing for the 2020-21 sale of £5.8 billion of RBS shares. This measure was submitted more than three days after the mutually agreed deadline for us to be informed of new policies, on the day that we finalised our fiscal forecast. We have included the Treasury's estimate in our forecast as an uncertified costing because of its relatively simple nature – on the assumptions underpinning our central forecast, the Government would still own a sufficient number of RBS shares to raise £5.8 billion in 2020-21.

A.3 In July, we were unable to certify one element of the welfare savings package – removing the first child premium in universal credit for new claims. In that instance too, we included the Treasury's estimate of its fiscal impact in our forecast. We have now been provided with the information necessary to assure ourselves that the costing is reasonable and central, so have included the same amount in this forecast.

A.4 Table A.1 reproduces the Treasury's scorecard, with further details set out in Chapter 4 and in the Treasury's *Spending Review and Autumn Statement policy costings document*, which summarises the methodologies used to produce each costing and provides some information on the main areas of uncertainty within each.

A.5 The costings process worked more efficiently alongside this forecast, with a smaller proportion of policy measures being submitted just before our deadlines than had been the case in March and July.

Policy decisions not on the Treasury scorecard

A.6 In this *EFO* we have shown the effect on our forecasts for receipts and AME spending of policy decisions that have not been fully included in the Treasury scorecard. These include:

- the decision to help some local authorities to raise council tax more quickly to meet some of the costs associated with adult social care and policing. That decision raises receipts and local authority self-financed expenditure (LASFE). It is very nearly neutral for borrowing; and
- the AME spending effect of housing associations' estimated response to changes in grant funding announced in the Spending Review and the new limits imposed on social sector rents (explained in Annex B).

Uncertainty

A.7 In order to be transparent about the potential risks to our forecasts, we assign each certified costing a subjective uncertainty rating, shown in Table A.1. These ratings range from 'low' to 'very high'. In order to determine the ratings, we have assessed the uncertainty arising from each of three sources: the data underpinning the costing; the complexity of the modelling required; and the possible behavioural response to the policy change. We take into account the relative importance of each source of uncertainty for each costing. The full breakdown that underpins each rating is available on our website. It is important to emphasise that, where we see a costing as particularly uncertain, we see risks lying to both sides of what we nonetheless judge to be a reasonable and central estimate.

Table A.1: Treasury scorecard of policy decisions and OBR assessment of the uncertainty of costings

		Head	£ million						
			2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Uncertainty
Business, growth and skills									
1	Apprenticeship Levy (funding employer apprenticeship scheme)	Tax	0	0	+2,730	+2,845	+2,970	+3,095	Medium
2	Business Rates: small business relief extension[2]	Tax	0	-700	+40	+15	0	0	Medium-low
3	Enterprise Zones	Tax	0	*	-10	-15	-15	-5	Medium-high
4	Royal Mail share scheme	Spend	-45	0	0	0	0	0	N/A
Property and housing									
5	Stamp Duty Land Tax: higher rates on additional properties	Spend	+30	+625	+700	+760	+825	+880	High
6	Stamp Duty Land Tax: bringing forward payments	Spend	0	0	+110	+10	+10	+10	Medium
7	Capital Gains Tax: reduce payment window for residential property	Tax	0	0	0	0	+930	+230	Medium
8	Temporary accommodation: impact of new funding mechanism[3]	Spend	0	0	+225	+235	+245	+260	Medium
Energy, environment and transport									
9	Renewable Heat Incentive: capping costs and improving value for money	Spend	0	+30	+100	+245	+460	+690	Medium-low
10	Landfill Communities Fund: reform	Tax	0	+20	+20	+20	+20	+20	Low
11	Flood Re: levy and premiums income	Spend	-10	+75	+65	+70	+70	+65	Medium
12	Company Car Tax: retain the diesel supplement until 2021	Tax	0	+280	+275	+275	+265	+265	Medium
13	Insurance Premium Tax: reform to motor insurance claims rules	Tax	0	0	-35	-45	-55	-55	Medium-high
Avoidance, evasion and tax planning									
14	Stamp Duty Reserve Tax: options abuse	Tax	0	+35	+40	+40	+40	+45	High
15	Venture capital schemes: restrictions on use	Tax	+15	+95	+95	+95	+90	+95	Medium-high
16	Capital allowances and leasing: reducing avoidance	Tax	+5	+25	+40	+30	+20	+20	High
17	Corporation Tax: disposals of intangible fixed assets to related parties	Tax	+15	+45	+70	+35	+30	+25	High
18	Company distributions: preventing avoidance	Tax	0	*	+35	+20	+15	+10	High
19	General Anti-Abuse Rule: penalties	Tax	*	+10	+20	+25	+5	+5	High

Table A.1 continued: Treasury scorecard of policy decisions and OBR assessment of the uncertainty of costings

Modernising the tax and benefit system									
20	Making Tax Digital: reducing errors through record keeping	Tax	0	0	*	+10	+300	+610	High
21	Corporation Tax: special rate on restitution payments	Tax	+270	+55	+55	+75	+100	+115	Medium-high
22	Fraud, error and debt: DWP and HMRC changes	Tax	0	+85	+135	+105	+135	+145	Medium
Welfare									
23	Tax credits: maintain taper and income threshold	Spend	0	-3,385	-2,875	-1,735	-910	-465	Medium-low
24	Universal Credit: updated delivery schedule	Spend	0	+60	+250	+225	+70	-215	Medium-high
25	Universal Credit: uprate Minimum Income Floor w ith National Living Wage	Spend	0	*	+10	+55	+120	+180	Medium
26	Housing Benefit: limit social sector rates to the equivalent private sector rate	Spend	0	0	0	+120	+170	+225	Medium-high
27	Housing Benefit and Pension Credit: limit temporary absence	Spend	0	+25	+20	+15	+10	+10	High
28	Childcare: revised eligibility criteria	Spend	0	+10	+70	+90	+110	+125	Medium-high
Pensions and pensioners									
29	Pensions automatic enrolment: align w ith start of tax year	Tax	0	0	+390	+450	-10	-10	Medium-high
30	Pension Credit Savings Credit: freeze	Spend	0	+135	+130	+125	+125	+120	Medium
31	Social care reforms: updated implementation date	Spend	0	+105	+110	+100	+75	-75	Low
	TOTAL POLICY DECISIONS		**+280**	**-1,965**	**+2,815**	**+4,295**	**+6,220**	**+6,420**	
	Of which: welfare cap policy decisions		*-5*	*-2,970*	*-1,920*	*-670*	*+140*	*+290*	
	Total tax policy decisions		**+335**	**+585**	**+4,545**	**+4,620**	**+5,520**	**+5,335**	
	Of which: Apprenticeship Levy		*0*	*0*	*+2,730*	*+2,845*	*+2,970*	*+3,095*	
	MEMO: SPENDING REVIEW: TOTAL REAL-TERM SAVINGS IN RDEL [4]		*0*	*+300*	*+4,100*	*+8,100*	*+11,900*		

** Negligible*

[1] Costings reflect the OBR's latest economic and fiscal determinants.

[2] Costing includes the impact on local government grants which have been incorporated in departmental settlements.

[3] This reflects the reduction in Annually Managed Expenditure from this measure. Funding for managing temporary accommodation will be included within DCLG Communities DEL. See Chapter 3 of HM Treasury's document for further detail.

[4] RDEL savings calculated compared to a counterfactual in which RDEL excluding depreciation grows in line with whole economy inflation from its 2015-16 level (excluding the OBR's Allowance for Shortfall).

A.8 Table A.2 shows the detailed criteria and applies them to a sample policy measure from this Spending Review and Autumn Statement: 'Pensions automatic enrolment: align with start of tax year'. It is expected to raise around £400 million in both 2017-18 and 2018-19. We have judged that the most important source of uncertainty in the costing is modelling, followed by data and behaviour. The modelling is based on an assumption of a steady-state opt-out rate of around 28 per cent of employees enrolled automatically on a workplace pension, with a gradual build-up from the current 10 per cent as contribution rates rise over the next few years. These opt-out rates were already in our baseline forecast. DWP has estimated that there will be a lower opt-out rate due to the lower contributions, but this is assessed against an unverifiable counterfactual leading us to consider it to be a 'high' source of uncertainty. The data used come from an internal DWP survey of employers, a long-standing survey on hours and earnings from the ONS, and a cross-departmental register of businesses providing workplace pensions. While not as certain as administrative data, the costing does use high quality external data. We consider this to be a 'medium' source of uncertainty. The behavioural response is a considerable factor in the costing, but it is informed by outturn data and we considered sensitivity analysis that provided further reassurance. We judge this to be a 'medium' source of uncertainty. Taking all these judgments into account, we gave the costing an overall uncertainty rating of 'medium-high'.

Table A.2: Example of assigning uncertainty rating criteria: 'Pensions automatic enrolment: align with start of tax year'

Rating	Modelling	Data	Behaviour
Very high	Significant modelling challenges Multiple stages and/or high sensitivity on a range of unverifiable assumptions	Very little data Poor quality	No information on potential behaviour
High	Significant modelling challenges Multiple stages and/or high sensitivity on a range of unverifiable assumptions	Little data Much of it poor quality	Behaviour is volatile or very dependent on factors outside the tax/benefit system
Medium-high	Some modelling challenges Difficulty in generating an up-to-date baseline and sensitivity to particular underlying assumptions	Basic data May be from external sources Assumptions cannot be readily checked	Significant policy for which behaviour is hard to predict
Medium	Some modelling challenges Difficulty in generating an up-to-date baseline	Incomplete data High quality external sources Verifiable assumptions	Considerable behavioural changes or dependent on factors outside the system
Medium-low	Straightforward modelling Few sensitive assumptions required	High quality data	Behaviour fairly predictable
Low	Straightforward modelling of new parameters for existing policy with few or no sensitive assumptions	High quality data	Well established, stable and predictable behaviour
Importance	High	Medium	Low
Overall		**Medium-high**	

A.9 Using the approach set out in Table A.2, we have judged eight measures in the Treasury's scorecard to have 'high' uncertainty around the central costing. One financial transaction was judged to have 'very high' uncertainty. These scorecard measures represent 26 per cent of those in the Autumn Statement by number and 14 per cent by absolute value (in other words ignoring whether they are expected to raise or cost money for the Exchequer). In net terms, they are expected to raise the Exchequer £5.3 billion in total over the forecast period. The measures are:

- **Further Education: expansion of tuition fee loans**: This measure receives a 'very high' uncertainty rating. It expands advanced learning loans to cover level 3 and 4 courses for young learners (aged 19 to 23) and level 5 and 6 courses for all learners. This costing rests entirely on an estimate of behavioural change, as there is no pre-behavioural impact of making these loans available. This is the source of uncertainty in the costing. Given the lack of data on the demand for public funding for these courses

– there is currently no public funding available for standalone level 5 and 6 qualifications – and difficulties in estimating the additionality in take-up due to the measure, the estimated cost of this measure is highly dependent on judgement-based assumptions;

- **Stamp Duty Land Tax: higher rates on additional property**: This measure receives a 'high' uncertainty rating. From April 2016 stamp duty land tax (SDLT) rates on additional residential properties – primarily buy-to-let and second homes – will be 3 per cent higher. There are two main sources of uncertainty in the costing: the tax base and the behavioural response. Uncertainty regarding the tax base arises from the fact that at present there is no requirement to declare whether a transaction is being made as a second dwelling. As such, the number of transactions that will be liable for these higher rates in future years has had to be estimated using other sources and a number of assumptions. While there are relatively high quality data for buy-to-let purchases, data on second homes is much poorer, with estimation being based on council tax and census information. There are a number of possible behavioural effects and each adds uncertainty. For example, the measure requires purchasers to declare that the dwelling they are acquiring will not be their primary residence – i.e. effectively to opt in to the higher SDLT charge. There are also uncertainties about the extent to which the higher rates will reduce the number of property transactions and whether they could have a material effect on house prices;

- **Stamp Duty Reserve Tax: options abuse**: This measure receives a 'high' uncertainty rating. It is an anti-avoidance measure to restrict the use of 'deep in the money' options, a financial instrument used to reduce artificially the taxable consideration of transactions in shares. There is considerable uncertainty over how much of the current use of such options is legitimate and how much is largely for avoidance purposes, which creates uncertainty over the tax base. The use of these options at the moment suggests that this population is actively changing behaviour in response to the tax system. Any measure targeting such a population is inherently uncertain;

- **Making Tax Digital: reducing errors through record keeping:** This package receives a 'high' uncertainty rating. It is an HMRC initiative to interact digitally with small businesses across income tax, corporation tax and VAT, working with the private sector to introduce software that will design out record-keeping errors in taxpayers' returns. There are uncertainties in the behavioural response and operational delivery. In terms of behaviour, the uncertainty relates to the extent to which the software will prevent errors by taxpayers; in terms of deliverability, the uncertainty relates to whether HMRC can deliver this challenging project in time for the benefits to be realised as scored. Reflecting lessons learnt from previous costings (as described later in this annex), we paid particular attention to the degree of contingency built into the delivery plan before certifying the costing as central;

- **Company distributions: preventing avoidance:** This package is intended to tackle the use of voluntary liquidation as a tax planning tool, and receives a 'high' uncertainty rating. This package introduces two new sets of rules that mean that voluntary liquidation of companies that are then re-opened by the same controlling shareholders will result in an income tax liability rather than a capital gains tax liability, increasing the effective tax rate paid. The tax base has a high degree of uncertainty in this package, as the estimate relies on intelligence obtained by HMRC on whether the rule would have applied in previous cases. As a result, there is a very wide range of plausible estimates. The final costing is also reduced to account for the tax planning behaviour of the population using these tools, as they are already actively changing their behaviour in response to the tax system;

- **Capital allowances and leasing: reducing avoidance:** This measure receives a 'high' uncertainty rating. It intends to tackle schemes that resulted in either artificially low disposal values for capital allowances purposes or tax-deductible sale-and-lease-back arrangements. The tax base estimate is derived from a relatively low number of cases, which creates uncertainty: it is very sensitive to small changes in the number of future cases. There is also uncertainty over the behavioural effect, as with all measures targeting taxpayers who are already actively responding to the tax system by changing their behaviour;

- **Corporation Tax: disposals of intangible fixed assets to related parties:** This measure receives a 'high' uncertainty rating. It amends the related party rules in effect in the corporation tax regime for transfers of intangible assets to make clear that partnerships will be treated as part of a group. The uncertainty in this measure comes from the tax base and the behavioural response. The tax base is estimated from a small number of existing cases with little evidence on which to base the number of new cases that will arise from year to year. In terms of behavioural response, the main uncertainty relates once again to the measure targeting taxpayers that are already responding to the tax system by changing their behaviour;

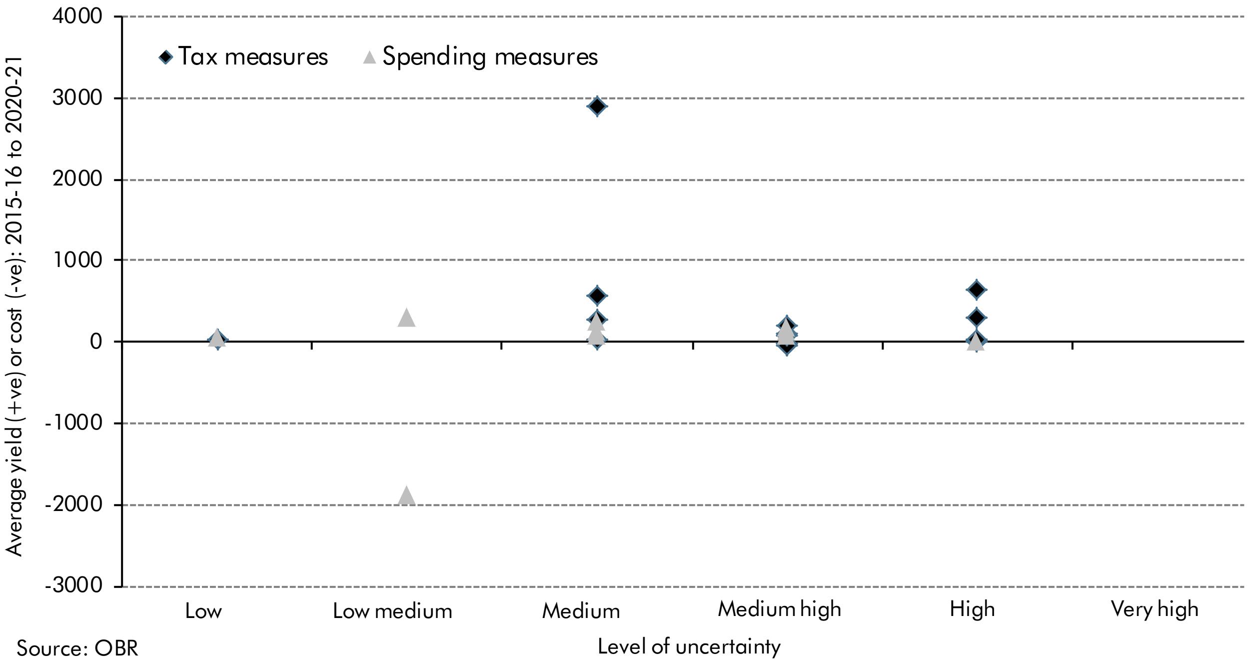
- **General Anti-Abuse Rule: penalties:** This measure receives a 'high' uncertainty rating. It introduces a penalty for tax cases caught by the GAAR, set at 60 per cent of the tax affected. The uncertainty comes from a number of sources in this costing: the tax base is the number of cases expected to be caught by the GAAR, of which there are as yet none. It is also formed from activity hidden within avoidance schemes. The behavioural effect is based on GAAR penalties acting as a deterrent on top of the existing deterrence from the GAAR, which itself is uncertain. As we have seen with the original GAAR measure, it can take a long time for any receipts benefit to materialise – yet another source of uncertainty;

- **Housing Benefit and Pension Credit: limit temporary absence**: This package receives a 'high' uncertainty rating. It reduces the maximum temporary absence from the UK of housing benefit and pension credit claimants to four weeks before they lose their entitlement. There are two main sources of uncertainty in this costing. First, the number of people on these benefits currently travelling abroad for periods between four weeks (the new limit) and thirteen weeks (the current limit), which affects the pre-behavioural estimate. Second, the extent to which the lower limit will change behaviour, the estimate for which relies on judgement in the absence of available evidence.

A.10 We have judged 21 scorecard measures to have between 'medium-low' and 'medium-high' uncertainty around the central costing, with a further two having 'low' uncertainty. That means that 68 per cent of the Autumn Statement scorecard measures have been placed in the medium range (85 per cent by absolute value) and 6 per cent have been rated as low (just 1 per cent by absolute value).

A.11 Chart A.1 plots these uncertainty ratings relative to the amount each policy measure is expected to raise or cost. One feature of the distribution of measures by uncertainty is that the spending measures are typically assigned lower uncertainty ratings, while the tax raising measures are typically assigned higher uncertainty ratings than the tax cuts. This is particularly true for the measures that aim to raise money from companies and from high income and wealth individuals that are already actively planning their affairs to reduce their tax liabilities.

Chart A.1: OBR assessment of the uncertainty of scorecard costings



Source: OBR

Longer-term uncertainties

A.12 For most policy costings, the five-year scorecard period is sufficient to give a representative view of the long-term cost or yield of a policy change. Typically, that effect is either zero – because the policy has only a short-term impact that has passed by the end of the scorecard period – or it would be reasonable to expect it to rise broadly in line with nominal growth in the economy. In this Spending Review and Autumn Statement, the final year effect of most scorecard measures are representative of the longer-term scorecard yield.

A.13 There are two measures bringing forward payment of tax liabilities, in capital gains tax (CGT) and stamp duty land tax (SDLT). These are measures that change only the timing of tax payments and not the overall level of tax liability or the underlying economic activity being taxed:

- **Capital Gains Tax: reduce payment window for residential property:** This measure changes the payment method for CGT due on residential property disposals. Currently CGT on property disposals is paid through self-assessment, which is paid more than a year in arrears. From April 2019 onwards, taxpayers will instead have to pay within 30 days of a transaction taking place. This measure therefore boosts CGT receipts in 2019-20 and 2020-21. This is a one-off boost to receipts that is neither repeated nor reversed in future years. If CGT receipts were recorded in the public finances data in accruals terms – aligned with the timing of the economic activity that gave rise to the tax liability – rather than cash terms – when the tax is paid – our baseline forecast would change and the yield from this measure would be effectively zero; and

- **Stamp Duty Land Tax: bringing forward payments:** This measure reduces the window during which SDLT liabilities can be paid without penalty from 30 days to 14 days, alongside a consultation on other changes to the SDLT payment and filing process. This will come into force in 2017-18. This is a timing effect that will provide a one-off boost to receipts in 2017-18 but does not change the total level of liabilities. As with the CGT measure, if SDLT receipts were recorded in the public finances data in accruals rather than cash terms, our baseline forecast would change and the yield from this measure would be effectively zero.

A.14 The package of new student loans measures announced in this Autumn Statement will also have effects over the long term. These are discussed in the Chapter 4 section on loans and other financial transactions.

Small measures

A.15 The BRC has agreed a set of conditions that, if met, allow OBR staff to put an individual policy measure through a streamlined scrutiny process. These conditions are:

- The expected cost or yield does not exceed £40 million in any year;

- There is a good degree of certainty over the tax base;

- It is analytically straightforward;

- There is a limited, well-defined behavioural response; and

- It is not a contentious measure.

A.16 A good example of a small measure announced in this Spending Review and Autumn Statement is the **reform of the landfill communities fund**, which is a simple reduction in value of the fund, with the direct consequence of reducing the value of tax credits that landfill operators can claim for contributions made to environmental bodies. This costing fulfilled all five criteria of the small measures process. Its yield is around £20 million a year, and the data are of high quality for the whole of the tax base, as it comes from the scheme's regulator. The modelling is a straightforward mechanical reduction in value and allowable deductions. The behavioural adjustment is very small and based on historical take-up rates. It is not considered to be a contentious measure.

A.17 By definition, any costings that meet all these conditions will have a maximum uncertainty rating of 'medium'.

Evaluation of HMRC anti-avoidance measures

A.18 The Treasury Select Committee's report on the Autumn Statement 2013 recommended that *"the OBR should do all it can to report on whether yields [from anti-avoidance measures] were attained as originally costed."* We did so first in Box 4.2 of our December 2014 *EFO*. We have repeated the exercise this year looking at more recently introduced measures and those measures for which there is new information. In total, 39 announced measures from the past five years have been evaluated.

A.19 The revenue impact of anti-avoidance measures tends to be particularly uncertain as they often target a specific subset of taxpayers who are already actively changing their behaviour in response to the tax system. Typically these measures are assigned one of our higher uncertainty rankings as both data quality and behavioural response tend to be uncertain. That is clear again in the uncertainty ratings assigned in this Autumn Statement.

A.20 Due to the difficulty and resource requirements of producing formal counterfactual evaluations, we again draw on evidence from HMRC's monitoring of receipts, operational intelligence and re-costing of previous measures for most of the evaluations.

Total receipts compared to original costing

A.21 Last December's evaluation suggested there was no systematic bias across the costings: the large shortfall from the UK-Swiss tax agreement meant that the total yield from the measures considered was below expectations, but across other measures there were both upside and downside surprises.

A.22 Chart A.2 presents the results from the current evaluation. For each measure we plot the difference between the average yield each year from the original costing and the current estimate. The chart shows that most measures are within £50 million of the original estimate either way, but that there have been five measures where the average yield is lower by more than £50 million a year. No measures have significantly outperformed the original costing.

A.23 Measures that changed the most since the original costing include:

- **Using real-time PAYE information to inform tax credits calculations**: This Spending Review 2010 measure sought to use HMRC's real-time PAYE information (RTI) system to lower overpayment of tax credits through a reduction in error and fraud. Initially the total estimated savings from 2014-15 onwards were in the region of £350 million a year, but these have now been lowered to around £200 million. This level is expected to continue in future years. The reduction is mainly due to a lower number of cases affected by RTI, partly as a result of reductions in income error and fraud prior to 2014-15. This offsets the large increase in tax credits payments since 2010;

- **Tax repatriation from Jersey, Guernsey and the Isle of Man**: In our previous evaluation exercise, we noted that the Budget 2013 measure announcing the disclosure facility with the crown dependencies was not expected to yield benefits as quickly as expected in the original costing. New information indicates that overall revenue from the measure is also expected to be lower than anticipated by an average of around £50 million a year, a reduction of around 20 per cent from the original estimate. The final yield from this measure remains highly uncertain and will depend on whether there is a surge in taxpayers registering for the disclosure facility ahead of its closure at the end of the year;

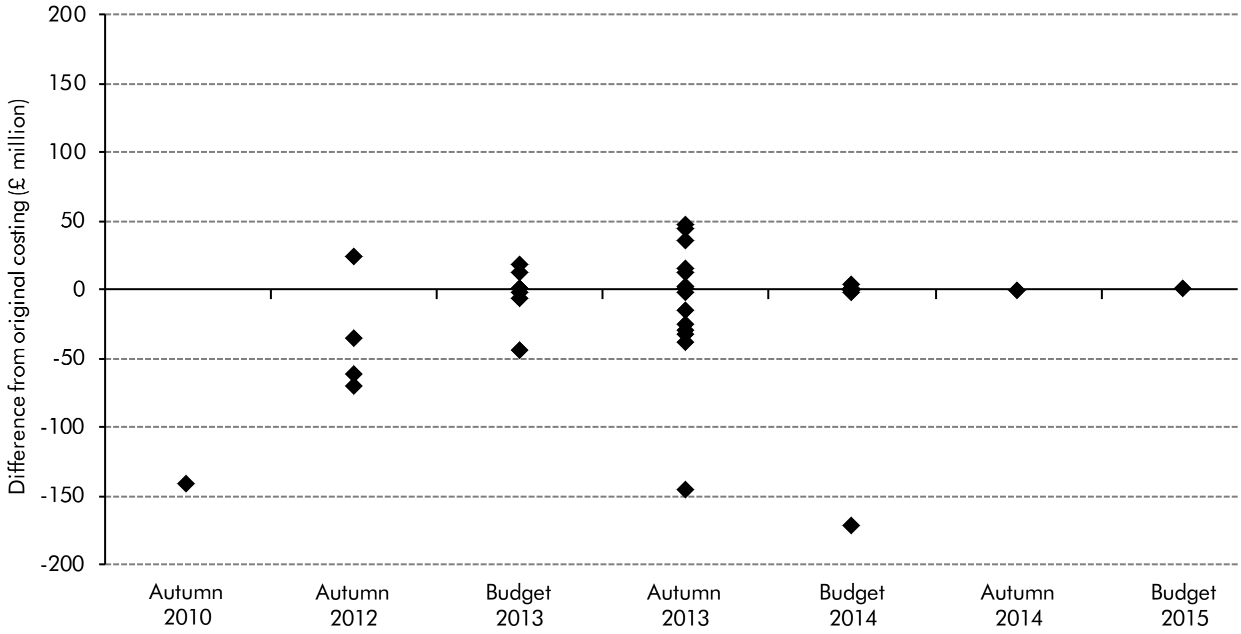
- **Onshore employment intermediaries**: This Autumn Statement 2013 measure strengthened legislation to tackle the use of intermediaries facilitating false self-employment. It also introduced a new quarterly reporting obligation on intermediary businesses engaging with workers outside of PAYE. Yield from this measure is expected to have been £0.3 billion lower in both 2014-15 and 2015-16 than the original costing. The reporting obligation was delayed until 2015-16 and we expect yield to be at or above the original costing from 2016-17 as compliance activity in light of this reporting picks up;

- **Accelerated payments**: Since Budget 2013, HMRC has been issuing accelerated payments notices, which bring in revenue more quickly by demanding payment upfront in avoidance cases. A review of the measures shows that they have so far brought forward more revenue than originally estimated. However, since these measures mostly change the timing of revenue coming into the Exchequer, this means that they are now expected to result in lower revenue than anticipated in future years. The re-profiling of the yield from this measure has been incorporated into the fiscal forecast;

- **General anti-abuse rule (GAAR):** Announced at Budget 2013, the estimate of future yield from the GAAR remains highly uncertain due to the fact that no referrals have yet been made to it, and so its effectiveness in practice remains to be tested. It is now expected to raise around 25 per cent more revenue than originally estimated. The main reason for this difference is that the GAAR is now expected to have a more prolonged deterrent effect on tax avoiders. The GAAR advisory panel's opinions were originally intended to apply to avoidance schemes rather than on a case-by-case basis, which was not possible under the original legislation. The Government is now introducing legislation to apply the panel's opinions at scheme level; and

- **HMRC compliance:** Since 2010, HMRC has introduced a number of measures targeting fraud detection and debt collection. We looked at 14 debt collection measures announced and implemented since then, which shows that there have been both under- and over-estimates. Two large measures, however, have resulted in significantly lower benefits than originally anticipated: 'real-time information' (described above) and 'error and fraud additional capacity' (discussed below).

Chart A.2: Differences between original and revised estimates of average revenue per year from anti-avoidance measures



Source: HMRC, OBR

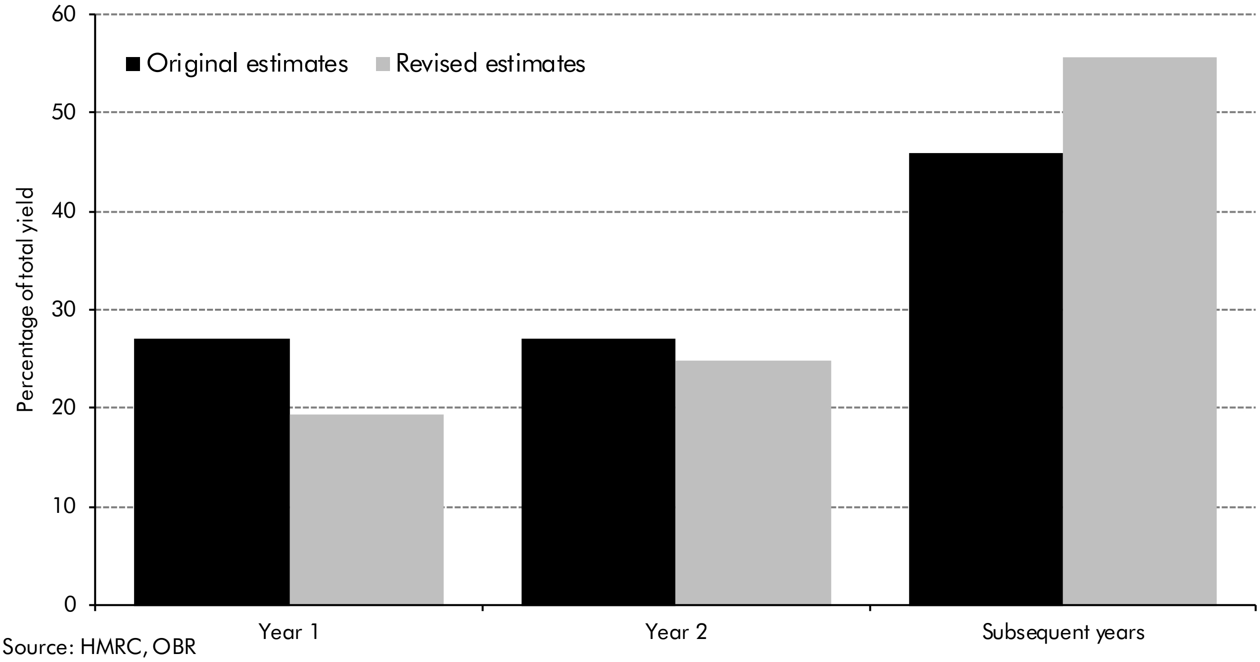
A.24 The Government has announced further anti-avoidance and compliance measures in recent Budgets and Autumn Statements. For many of these policies, the yield is only expected in the forecast period and we will evaluate them once they have come into effect. For example, much of the yield from the Budget 2013 and Autumn Statement 2013 policies on partnership income is only expected from January 2016.

A.25 In the July 2015 *EFO*, we discussed the Government's announcement of a package of measures designed to increase the level and quality of compliance activity carried out by HMRC. At that time, we sought assurances from the Treasury regarding the funding of these measures, and we also scrutinised evidence from HMRC's performance over the last Parliament. We noted that these measures were subject to considerable uncertainty. That remains the case, but having completed this evaluation of anti-avoidance measures and reviewed the assumptions used in the costings of those measures as part of the forecast process, we remain satisfied that the estimates of the yield from the measures published in July remain reasonable and central.

Timing of receipts compared to original costing

A.26 Last December's evaluation also noted that "*a key lesson from this exercise relates to the profile of expected yield. Anti-avoidance measures – like many new government activities – can take longer than expected to start delivering results. This includes measures that rely on new processes, staff or external contractors.*" Chart A.3 covers the 39 measures in the current evaluation as well as 19 from last year's evaluation. Across all measures, the original costings estimated 54 per cent of the total yield would be generated in the first two years. On the revised estimates that has fallen to 44 per cent. The yield pushed into later years represents an important source of uncertainty in our fiscal forecast.

Chart A.3: Difference between timing of yield between original costing and current estimate



Source: HMRC, OBR

A.27 The yield from the majority of measures is reasonably close to the original estimate, but there are somewhat more under-performing than over-performing measures. A number of these policies remain at a relatively early stage so it is not possible to make a definitive statement about their overall effectiveness. As shown in Chart A.3 we are currently expecting some of these measures to bring in yield in future years, though this is uncertain. We will continue to evaluate the performance of these measures and apply any lessons in our scrutiny of future policy costings.

Assessing the delivery of past measures

A.28 In order to certify costings as central, we need to estimate when – as well as by how much – measures will affect the public finances. A number of the Government's announced policy measures were subject to uncertainty over the timing of delivery; a number were subsequently delayed. These included:

- **universal credit** has been substantively delayed on at least three separate occasions in the past three years. Chart 4.8 in Chapter 4 shows that relative to our first formal inclusion of spending on universal credit in our December 2012 forecast, the rollout schedule is now around three years later than expected. In 2016-17 we now expect 330,000 claimants on universal credit rather than the 6.1 million expected in our forecast three years ago. This has typically lowered our spending forecasts because it postpones the costs associated with those that stand to gain from universal credit and also those that stand to receive transitional protection payments because they would lose from universal credit. These delays have knock-on impacts on all the forecasts and scorecard measures associated with the legacy benefits that will be replaced by universal credit;

- the reform of **disability living allowance** (DLA) moving working-age claimants to **personal independence payments** (PIP) was originally due to cut spending by a quarter through the reassessment of DLA claimants. DWP's external contractors have so far struggled to meet required volumes and outcomes. This means that the timetable for the reassessments has been extended from two to three years (as set out in Chapter 4);

- the Budget 2013 measure following the **recommendations of the Dilnot Commission** on social care was initially due to be implemented in April 2016, at a cost of around £1 billion a year. In July 2015, it was announced that the implementation of these reforms would be delayed until April 2020;

- the introduction of **tax free childcare** has been delayed by 18 months following a legal challenge to the Government's procurement process. This pushed annual spending of around £0.9 billion into future years;

- **error and fraud additional capacity** sought to bring in private sector support for HMRC tax credits compliance activity. It was part of the Autumn Statement 2013 measure 'tax credits: improving collection and administration'. This measure has been subject to a number of issues: the start date was initially pushed back from April to September 2014; it was then further delayed due to problems with the suppliers' IT; and when it did come into operation in 2014-15, the number of cases worked proved only around a quarter of those expected. Overall savings from this measure are now around £700 million lower than expected over the contract;

- **cross-award recovery from tax credits debt** formed part of the Autumn Statement 2012 measure 'tax credits: error and fraud'. It aimed to recover recipients' previous tax credits debt from their current awards. The measure has been subject to a number of problems: initially limitations in the IT system meant that not all debts originally in scope of the policy could be included; then during the early stages of implementation, less debt than expected was able to come within scope due to difficulties transferring debts within HMRC; and HMRC's systems were unable to recover cross-award debts as rapidly as anticipated. Overall savings from this measure are now around £200 million lower than expected;

- **recovery of any tax credit debt from any tax credit award**: this was announced in July 2015 and is already subject to delay. It was due to be implemented from early November 2015, but problems encountered by HMRC's IT suppliers mean it has been delayed by a minimum of four weeks. We were informed of this delay too late to incorporate it into this forecast, but the £60 million benefit expected this year is now unlikely. We will return to the costing in our next forecast;

- **outsourcing to debt collection agencies**: another measure targeting tax credit debts. Collections were expected to begin in 2013-14, but were delayed until 2014-15. As a result, the benefits were only £60 million – a third lower than originally expected;
- in Budget 2015 the Government announced the **help-to-buy ISA** for first-time buyers of residential properties. This was due to be operative from 1 October 2015 but is currently subject to a three-month delay due to operational challenges;
- the July Budget this year announced a one-year delay in the implementation of the March 2015 measure on **secondary annuities**. We discuss the effect of this measure on our income tax forecast in Chapter 4;
- in Autumn Statement 2013, the Government announced its plan to sell part of the **student loan book**, which it expected would raise around £12 billion over five years from 2015-16. The Treasury has informed us that its policy commitment on the student loan book sale remains unchanged, but that it will not now be able to complete the first sale until 2016-17. The effects of this delay are also discussed in Chapter 4;
- the **gambling place of consumption tax reform** was announced in Budget 2012. It was expected to raise around £250 million a year and to be implemented from December 2014. Issues with the implementation of the IT system required for delivery of the new tax regime, the first accounting period was extended and no yield was received until the beginning of 2015-16; and
- in Budget 2014, the Government announced a £525 million **builders' finance fund** to provide developers of sites of up to 250 homes access to finance. A number of projects were shortlisted by the Homes and Communities Agency in September 2014, but as of October 2015, only two projects had received funds; ten schemes have signed contracts but have yet to draw down funds.

Departmental spending

A.29 We do not scrutinise the costings of policies that reallocate spending within departmental expenditure limits (DELs), since the total cost or yield is wholly determined by a Government policy decision. Neither do we typically scrutinise the DEL implications of measures that affect current receipts or AME spending, as those are also wholly determined by Government policy decisions. Instead, we include the overall DEL envelopes for current and capital spending in our forecasts, plus judgments on the extent to which we expect those to be over- or underspent in aggregate. DEL totals were set in the Spending Review and we have assumed underspending relative to those totals across the forecast.

A.30 In the July Budget, we asked the Treasury to provide assurance that the announced package of HMRC and DWP operational measures would receive the necessary funding. For this forecast, we checked again that these had been fully funded.

A.31 For this Autumn Statement, we have sought assurance from the Treasury on the funding of the measure on temporary accommodation. This is part of a reform to the funding of temporary accommodation provided by local authorities, in which the management fee will no longer be funded from DWP AME (a saving that is shown on the Treasury scorecard) but will instead be funded through grants to local authorities (reflected in DCLG DEL). The Treasury has provided assurance that this will be fully funded. The increase in DEL from this measure is captured in the Spending Review settlement and therefore within our forecast. This switch from AME to DEL moved spending from within the Government's self-imposed welfare cap to outside it.

Indirect effects on the economy

A.32 This Spending Review and Autumn Statement contains a number of policy changes that we have judged to be sufficiently large to justify adjustments to our central economic forecast. These include:

- the Government has eased the pace of fiscal tightening in the short term, increasing 2016-17 spending on public services, capital investment and welfare. We now expect GDP growth to be 0.2 percentage points higher in that year, and then lower in subsequent periods as the initial boost to the level of output diminishes;
- the additional costs to employers following the introduction of an apprenticeship levy are expected to initially reduce nominal wages and profit margins, with the majority of the incidence assumed to fall on wages by the end of the forecast period. This is temporarily offset by the postponement of planned increases in auto-enrolment pension contributions, which reduces employer costs slightly in 2017-18 and 2018-19;
- the higher rates of stamp duty land tax on buy-to-let properties and second homes reduces the incentive to purchase them, which we assume will reduce the number of property transactions each year; and
- changes to energy policy are expected to have a small one-off effect on CPI inflation in 2017-18. Faster rises in council tax are expected to have a more persistent effect on RPI inflation, equivalent to just under 0.1 percentage points each year from 2016-17.

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