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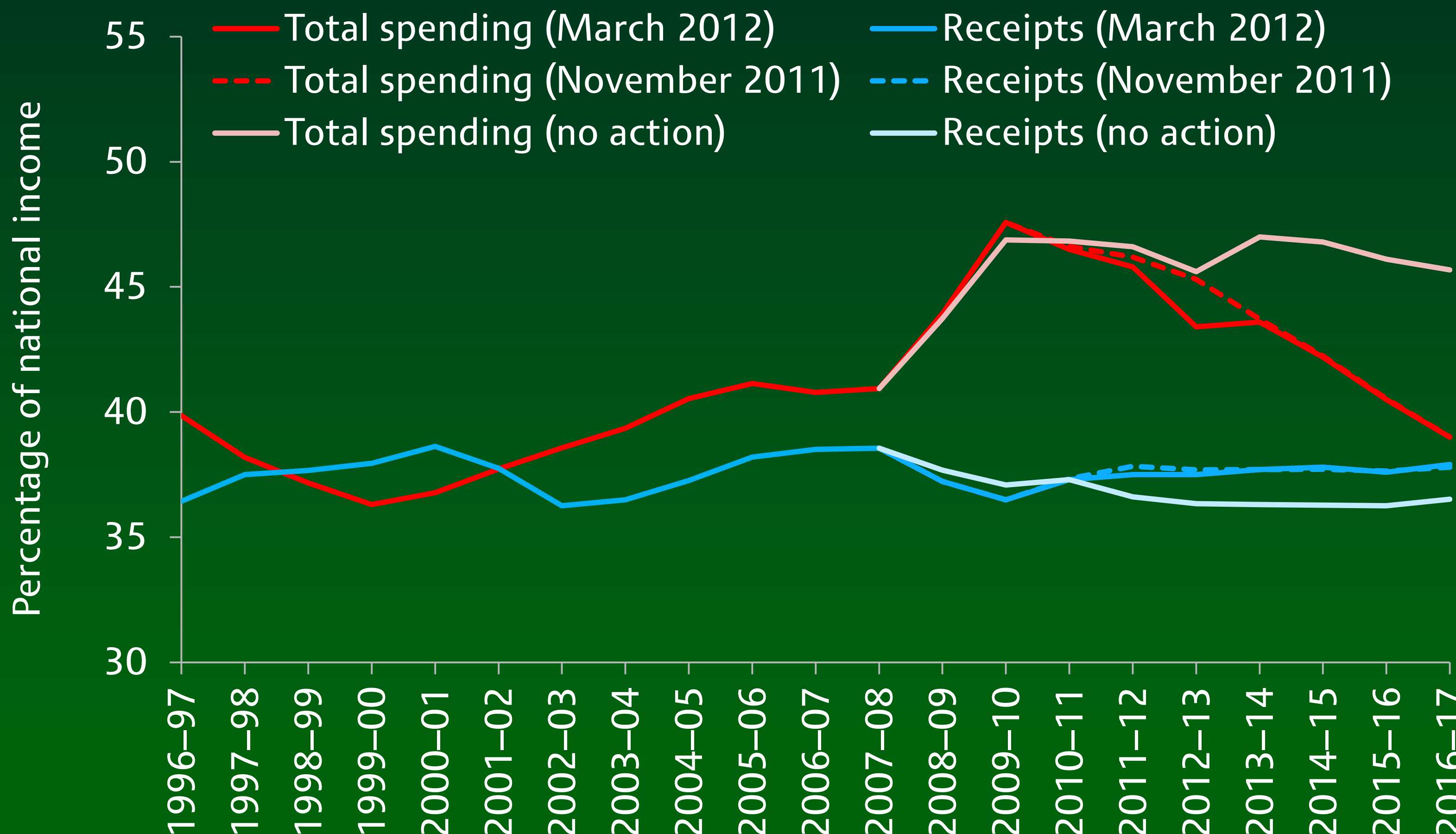
Small changes this Parliament; more big welfare cuts next?

Carl Emmerson

Forecasts for fiscal aggregates broadly unchanged



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Changes in borrowing forecasts since Nov 2011

Public sector net borrowing, £ billion

	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
Nov 2011 EFO	**127**	**120**	**100**	**79**	**53**	**24**
Budget 2012	**126**	**92**	**98**	**75**	**52**	**21**

Notes: Numbers might not sum due to rounding.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

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‘Nationalisation’ of the Royal Mail pension fund

- Estimated liabilities of £37.5bn and estimated assets of £28bn to be transferred to public sector from April 2012
- Short-run effect
  - Public Sector Net Borrowing £28.0bn lower in 2012–13
  - increase in spending in 2013–14 and 2014–15 covered by DEL reserve
  - Public Sector Net Debt £18.4bn lower in 2012–13 and £22.9bn lower in 2013–14
- No impact on Chancellor’s fiscal mandate (makes supplementary target slightly harder to meet)
- Longer-run effect to weaken public finances (as assets worth less than liabilities)

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Measures	0.0	1.9	1.0	–2.0	–0.1	–1.2
Tax takeaway	0.0	–1.3	–3.6	–5.8	–4.3	–4.9
Tax giveaway	0.0	3.0	4.4	4.6	5.1	4.8
Spend takeaway	0.0	–0.2	–0.9	–1.7	–1.0	–1.2
Spend giveaway	0.0	0.4	1.1	1.0	0	0

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Uncertainty

- We can be reasonably confident of many of the costings
- But some are less certain
- OBR highlights six measures where the uncertainty around the costing is particularly large
  - the cut in the additional rate of income tax from 50p to 45p
  - cap on unlimited income tax reliefs
  - Stamp Duty Land Tax anti-avoidance measures
  - Controlled Foreign Company rules
  - Machine Games Duty
  - paying down housing debt
- In particular risk that Budget measures end up being a net giveaway

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Forecasting changes	–1	–2	–3	–2	–1	–1
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Forecasting changes	–1	–2	–3	–2	–1	–1
Tax						
50p rate revised estimate	5.1	2.5	2.8	1.9	2.5	2.6
Other	0.0	–1.5	–2.5	–1.7	–1.9	–2.7

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50p rate revised estimate	5.1	2.5	2.8	1.9	2.5	2.6
Other	0.0	–1.5	–2.5	–1.7	–1.9	–2.7
Spend						
Debt interest	–0.2	–1.8	–3.7	–2.1	–1.1	–0.6
Departmental underspend	–5.5	0	0	0	0	0
Other	–0.5	–2.0	–0.1	–0.5	–1.0	–1.1

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Budget 2012	**126**	**92**	**98**	**75**	**52**	**21**
Budget 2011	**122**	**101**	**70**	**46**	**29**	

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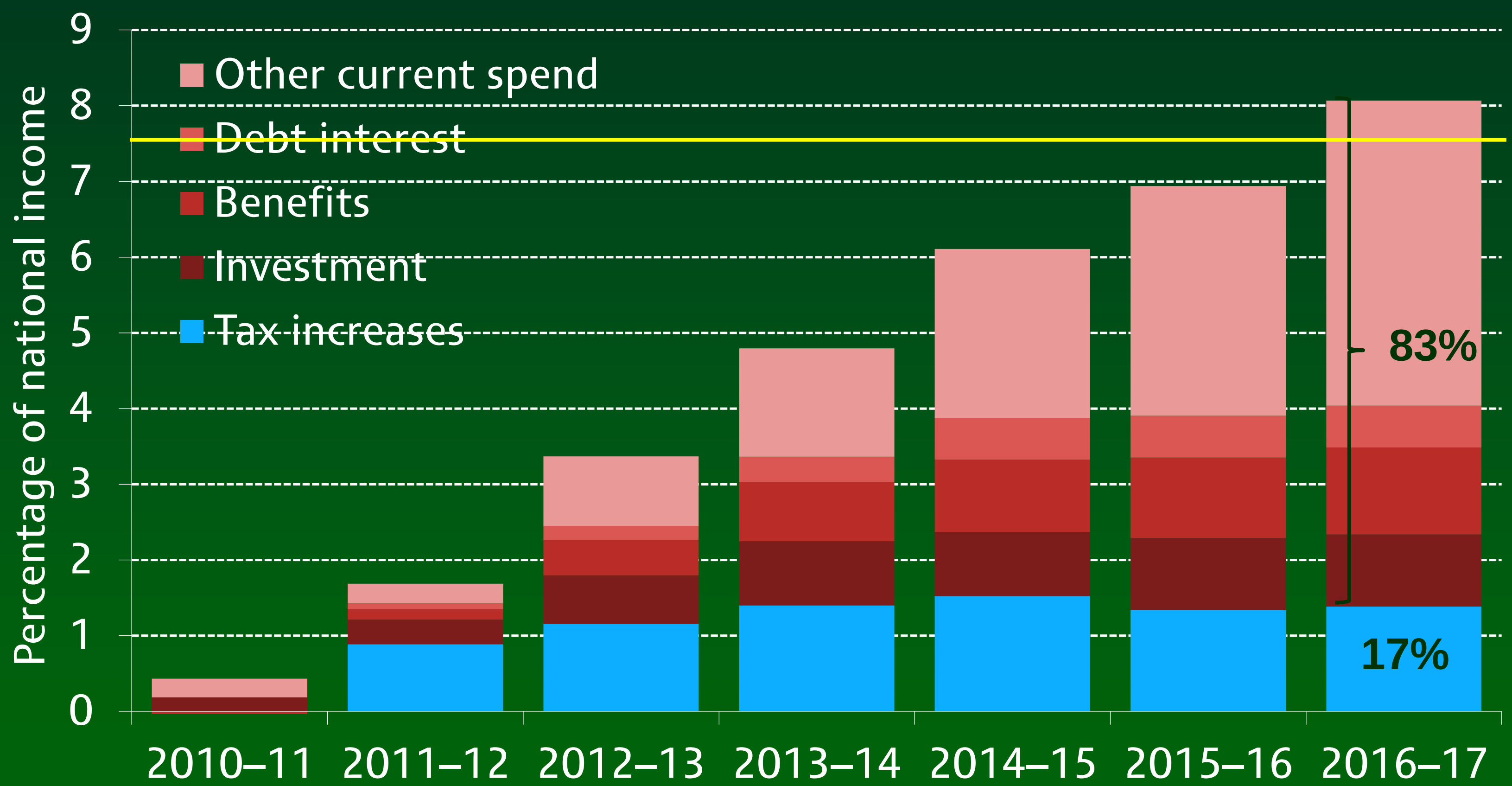
The cure (March 2012): 8.1% national income consolidation over 7 years (£123bn)

Mar 2012: 7.6% national income (£115bn) hole in public finances



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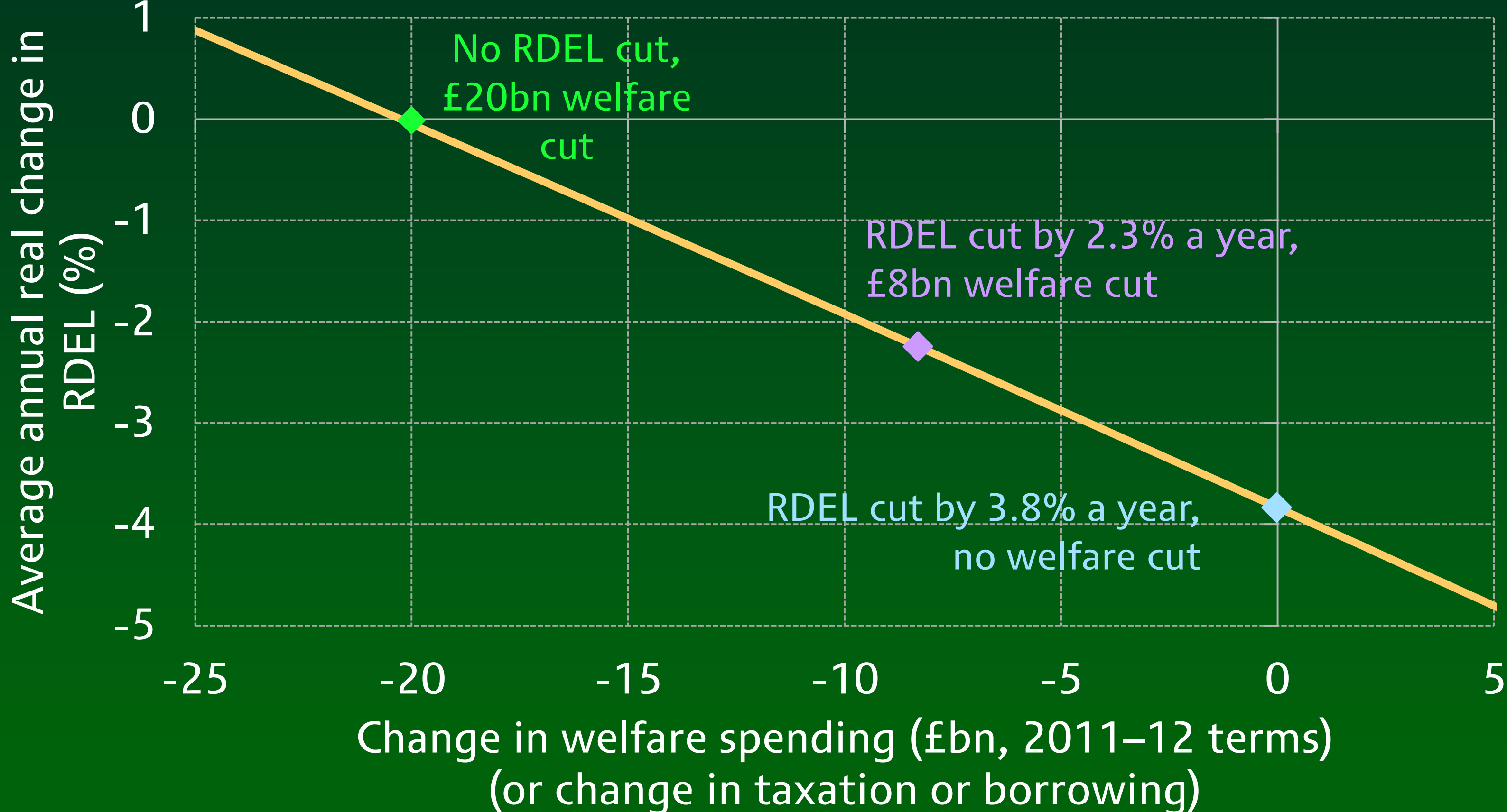
Trade-off between cuts to public service spending and welfare cuts: 2015–16 and 2016–17



Note: HM Treasury and IFS calculations. Resource Departmental Expenditure Limits (RDEL) is the non-investment component of the spending by central government on the delivery and administration of public services.

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Moving to a simple flat rate state pension?

- £140 per week, triple-locked, state pension for all new pensioners?
  - those who have accrued more than £140 would get the greater amount
  - lower amounts could be paid to those with periods of contracting out: if so it would be a long while before most would get £140
- Implications for individuals:
  - lower (lifetime) earners and self-employed get greater state pension
  - reduced reliance on means-tested benefits; those who would not otherwise take up their entitlements would be big winners
  - a simpler state pension system could arrive much sooner
- Intention to leave public spending on pensions unchanged, so gains have to be offset by losses
  - higher earners to accrue lower state pensions, Pension Credit Savings Credit to be abolished and no State Pension paid to those with fewer than 7 years contributions
- (Contracting out of DB schemes to end)

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How to cut £8bn from welfare? (1/2)

- Chancellor raised spectre further cuts to AME by 2016–17
  - on top of £18bn of cuts planned over current spending review period
  - £18bn equivalent to £680 per household, though obviously concentrated among those in the bottom half of the income distribution
- Social security and tax credit spending forecast to total £214.2bn in 2014–15
  - but £87bn on the state pension and £7bn on pension credit on which spending in total to be left unchanged
  - £8bn would be an average cut in other welfare spending of 7½%
- Would require combination of reducing benefit rates, greater use of means-testing and removing eligibility for certain groups

How to cut £8bn from welfare? (2/2)

- Largest benefits (excluding state pension and pension credit) by spending (in 2014–15) are:
  - Tax credits (£28.5bn)
  - Housing Benefit (£23.7bn)
  - Child Benefit
  - Disability Living Allowance (£13.8bn)
  - Employment Support Allowance (£10.9bn)
  - Attendance Allowance (£6.3bn)
  - Jobseeker's Allowance (£5.9bn)
  - Council Tax Benefit (£4.5bn)
  - Income Support (£2.7bn)
  - Statutory Maternity Pay (£2.4bn)
  - Winter Fuel Payments (£2.1bn)
  - Other

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Conclusions

- Small change in underlying forecast since Autumn Statement
  - impact on borrowing in 2011–12 of greater than expected forestalling from 50p rate offset by £5.5bn underspend by Whitehall departments
- Forecast net impact of new measures also small
  - medium-term tax giveaway offset by tax takeaway
- Significant risks to the public finances remain
  - risk that Budget measures end up being a net giveaway
  - majority of cut to planned spending remains to be delivered
- Details for cuts in 2015–16 and 2016–17 in the next Spending Review
  - this should happen no later than autumn 2013
- Within planned total spending trade-off between spending on public services and welfare spending
  - if cuts to central government spending on public services to continue at same rate then £8bn more of welfare cuts needed

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