



## BRIEFING PAPER

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# Budget 2016: a summary

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## Summary: Budget 2016 at a glance

[Budget 2016](#) was presented by the Chancellor of the Exchequer to Parliament on 16 March. At the same time the [Office for Budget Responsibility](#) (OBR) published updated forecasts in its Economic and Fiscal Outlook.

### Budget announcements

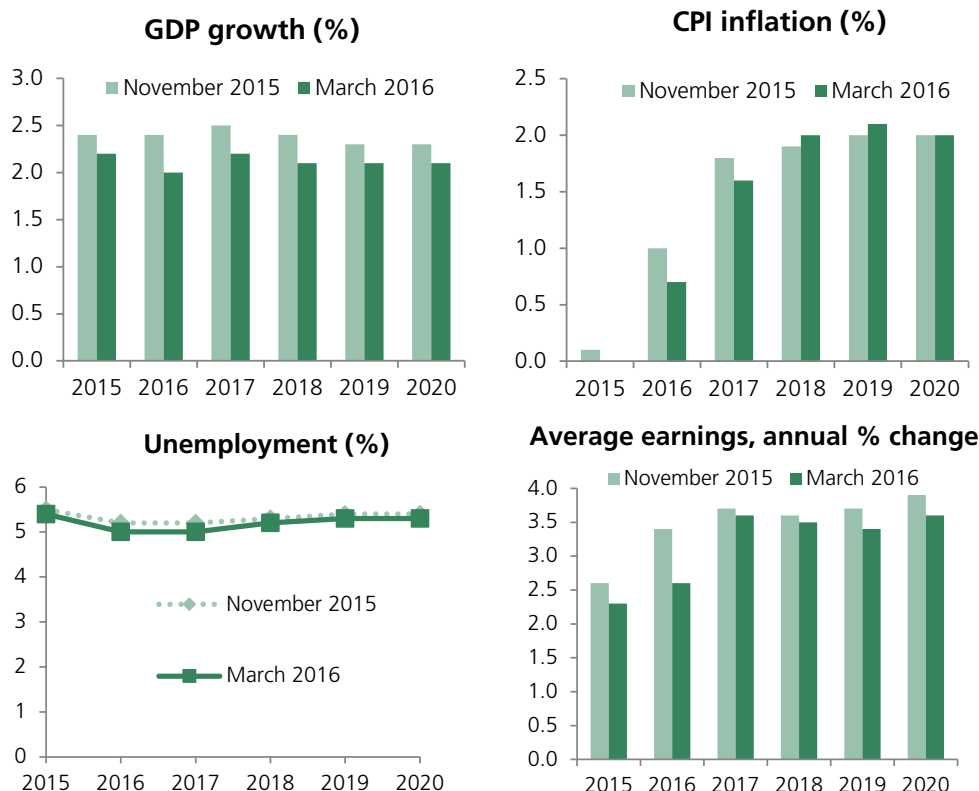
- **Tax-free personal allowance** increased to £11,500 in April 2017 from £11,000 in April 2016; **higher rate threshold** increased to £45,000 in April 2017 from £43,000 in April 2016.
- The **ISA tax-free allowance** increased from £15,240 to £20,000 in April 2017.
- A **Lifetime ISA** introduced from April 2017. Adults aged under 40 will be able to save up to £4,000 each year and receive an additional 25% from the Government. See [section 7](#).
- The Government to consult on introducing a **soft drinks industry levy** from April 2018. The levy – paid by producers and importers of soft drinks – will be charged on according to sugar content. Revenue raised will be ring fenced for schools funding. See [section 3](#).
- Following a review of **business rates** (see [section 5](#)):
  - business rates uprated by the Consumer Price Index from 1 April 2020. Business rates are currently uprated by the generally higher Retail Prices Index.
  - Small Business Rate Relief (SBRR) increased permanently from 50% to 100% in April 2017.
  - the threshold for receiving 100% SBRR increased from £6,000 to £12,000.
- Taxes on the **oil and gas industry** reduced. The **petroleum revenue tax** reduced from 35% to 0%. The **supplementary charge** on companies' profits reduced from 20% to 10%. Both changes take effect from 1 January 2016.
- **Corporation tax** reduced to 17% in April 2020.
- New rules to **limit the tax relief** that large multinational enterprises can claim for their **interest expenses** introduced from April 2017.
- The higher rate of **Capital Gains Tax** reduced from 28% to 20% and the basic rate from 18% to 10%. These changes take effect from April 2016.
- **Fuel duty** frozen in 2016/17. **Duties for beer, spirits and most cider** also frozen.
- **Discount rate** used in valuations of unfunded **public service pension schemes** reduced with additional costs for public sector employers. See [section 6](#).
- **Class 2 National Insurance contributions** for the self-employed abolished in April 2018.
- The **Carbon Reduction Commitment** energy efficiency scheme abolished, and the **Climate Change Levy** increased from 2019.
- **Stamp duty land tax (SDLT) on non-residential property** transactions reformed.
- A range of measures designed to **tackle tax avoidance and evasion**, estimated to raise around £3 billion in 2019/20.
- From January 2017 savings made due to changes in assessment of **Personal Independence Payment** (PIP). PIP helps with costs caused by long-term ill-health or a disability. See [section 4](#).

- An **efficiency review**, aiming to save £3.5 billion from departments' budgets in 2019/20, to report in 2018.
- Some **capital spending** – for housing, transport and flood defence – to be earlier in the Parliament.
- A £1,000 allowance for property income and a £1,000 allowance for trading income introduced from April 2017. These measures are aimed at those making incomes from the **digital and sharing economies**.
- The Government expects **all schools to become academies**, or be on the way, by 2020. See [section 8](#).
- **Crossrail 2** and **High Speed 3** – between Leeds and Manchester – to proceed.
- **New mayoral devolution deals** announced for Greater Lincolnshire, East Anglia, and the West of England and further devolution for Greater Manchester and Liverpool City Region.

#### **Office for Budget Responsibility (OBR) forecasts and the fiscal rules**

- The OBR revised down its forecasts for economic growth, saying that 'economic developments have disappointed' since its last forecast in November 2015. They report that the public finances look 'materially weaker'. See [section 1](#) and [section 2](#).
- The OBR judges that **the Government is on course to meet its 'fiscal mandate'** of a budget surplus in 2019/20. Despite a deterioration in the underlying forecast, the Government has met its target in 2019/20 by:
  - decreasing departments' current and capital spending;
  - introducing cuts to be identified by an efficiency review;
  - increasing public service pension contributions but not compensating departments for additional costs;
  - increasing tax revenues, largely by delaying a measure that brings forward large firms' quarterly corporation tax payments; and,
  - reducing welfare spending, largely through tightening the disability benefits system.
- The OBR judges that the debt-to-GDP ratio will rise between 2014/15 and 2015/16, therefore **the Government will miss its supplementary debt target**.

# 1. OBR forecasts for the economy



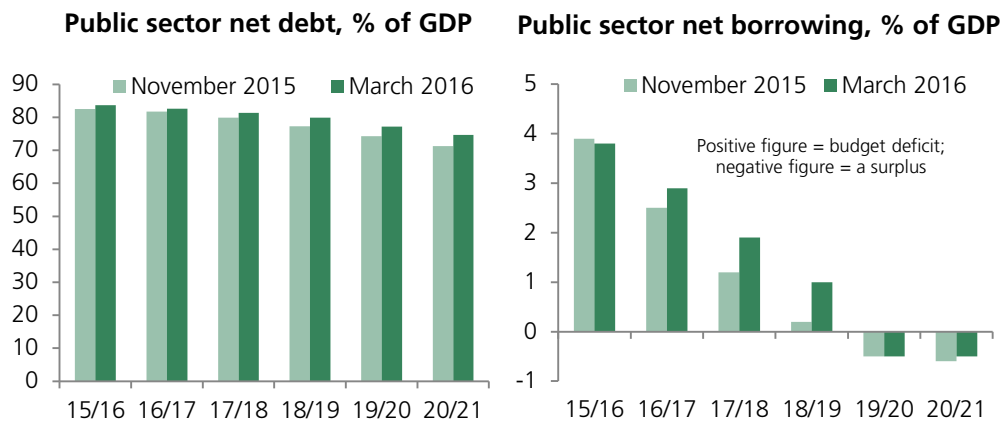
In its March 2016 forecasts compared with its November 2015 forecasts the OBR expects:

- GDP annual growth to be lower in the whole of the forecast period, particularly in 2016 when it is forecast to be 0.4 percentage points lower.
- CPI annual inflation to be lower in 2016 and 2017.
- Average annual earnings growth to be substantially lower in 2016.

## OBR forecasts: economy

	2015	2016	2017	2018	2019	2020
<b>GDP growth (%)</b>						
OBR, November 2015	2.4	2.4	2.5	2.4	2.3	2.3
OBR, March 2016	2.2	2.0	2.2	2.1	2.1	2.1
<b>CPI inflation (%)</b>						
OBR, November 2015	0.1	1.0	1.8	1.9	2.0	2.0
OBR, March 2016	0.0	0.7	1.6	2.0	2.1	2.0
<b>Employment, millions</b>						
OBR, November 2015	31.1	31.5	31.7	31.9	32.0	32.2
OBR, March 2016	31.2	31.6	31.7	31.9	32.0	32.1
<b>ILO unemployment rate, %</b>						
OBR, November 2015	5.5	5.2	5.2	5.3	5.4	5.4
OBR, March 2016	5.4	5.0	5.0	5.2	5.3	5.3
<b>Claimant count, millions</b>						
OBR, November 2015	0.80	0.77	0.82	0.86	0.87	0.88
OBR, March 2016	0.80	0.75	0.78	0.84	0.86	0.87
<b>Average earnings, % change on previous year</b>						
OBR, November 2015	2.6	3.4	3.7	3.6	3.7	3.9
OBR, March 2016	2.3	2.6	3.6	3.5	3.4	3.6

## 2. OBR forecasts for the public finances



- The OBR forecasts that public sector net debt will rise as a proportion of GDP from 83.3% in 2014/15 to 83.7% in 2015/16. This means that **the Government will miss its Supplementary Target for debt to fall as a percent of GDP each year.**
- In cash terms, debt is now forecast to be higher in each year from 2018/19 onwards compared with the OBR's forecasts published in November 2015.
- Public sector net borrowing is forecast to reach a surplus in 2019/20, meaning that **the Government is forecast to meet its Fiscal Mandate of a budget surplus in 2019/20.**
- However, borrowing is now forecast to fall by less in each year until 2018/19, and then by much more in 2018/19 to 2019/20, compared with the OBR's November forecasts.
- In 2019/20, a budget surplus of £10.4 billion is forecast. This means that borrowing is forecast to fall by £31.8 billion between 2018/19 and 2019/20.

### OBR forecasts: public finances

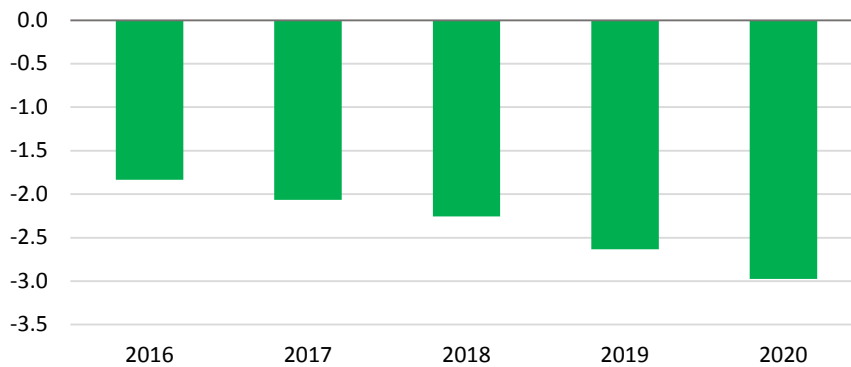
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Net borrowing, £ billion</b>						
OBR, November 2015	73.5	49.9	24.8	4.6	-10.1	-14.7
OBR, March 2016	72.2	55.5	38.8	21.4	-10.4	-11.0
<b>Net borrowing, % of GDP</b>						
OBR, November 2015	3.9	2.5	1.2	0.2	-0.5	-0.6
OBR, March 2016	3.8	2.9	1.9	1.0	-0.5	-0.5
<b>Net debt, £ trillion</b>						
OBR, November 2015	1.60	1.65	1.69	1.70	1.71	1.72
OBR, March 2016	1.59	1.64	1.68	1.72	1.73	1.74
<b>Net debt, % of GDP</b>						
OBR, November 2015	82.5	81.7	79.9	77.3	74.3	71.3
OBR, March 2016	83.7	82.6	81.3	79.9	77.2	74.7

## 2.1 Impact of lower GDP on tax revenues

The latest OBR forecasts includes a downgrade to headline real (inflation-adjusted) GDP growth in all years to 2020 (see [section 1](#)). There was also a larger reduction to cash terms (or nominal) GDP. Nominal GDP is more important to the public finances as “taxes are driven more by nominal than real GDP” in the words of the OBR.<sup>1</sup>

Nominal GDP, which shows the total size of the UK economy, is now expected by the OBR to be 3.0% smaller in 2020 than it previously thought in its last forecast in November 2015. This is due to a combination of forecasts for productivity growth and real-terms GDP growth being cut, and to lower inflation figures and forecasts for 2015 and 2016 (which reduce the size of nominal GDP in these years).<sup>2</sup>

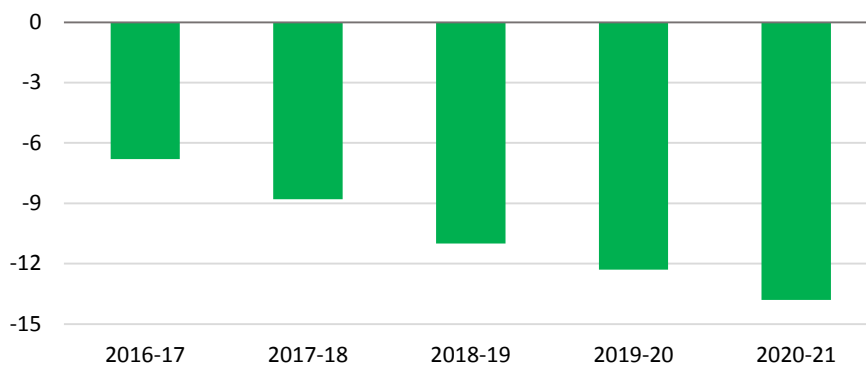
### % difference in size of economy (nominal GDP) in latest forecast compared with previous Nov 2015 forecast for each year



Source: OBR, EFO Mar'16 and Nov.15, supplementary economic table 1.2

Lower nominal GDP affects government tax revenues and, in turn, the budget deficit. The OBR forecasts that the new lower nominal GDP forecasts alone – and before Government policies in this Budget are included – result in tax revenues being less each year compared with its November forecast. For instance, they are expected to be £12.3 billion lower in 2019-20 than the OBR forecast in November.

### Effect of lower nominal GDP forecasts on tax revenues (£ billion) compared with previous Nov 2015 forecast for each year



Source: OBR, EFO Mar'16, table 1.5

<sup>1</sup> OBR, [Economic and fiscal outlook March 2016](#), Cm9212, 16 March 2016, p.62

<sup>2</sup> Inflation as measured by the GDP deflator

## 2.2 Reaching a surplus in 2019/20

Despite a deterioration in the OBR’s underlying forecast for the public finances the Government has met its fiscal mandate: public sector net borrowing (PSNB) is forecast to reach surplus in 2019/20.

Here we investigate how the fiscal mandate has been met in 2019/20 and a surplus similar to that forecast in November 2015 reached.

### Underlying forecast and Government policy

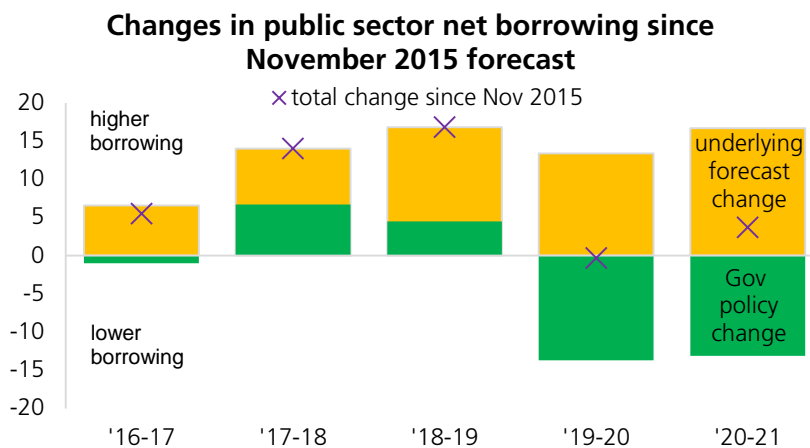
Differences between the OBR’s borrowing forecasts in the Budget and its previous forecast can be split into two categories: those that result from updating the underlying forecast – allowing for changes in the economy and public finances – and those that result from policy changes made in the Budget by the Government.

The OBR’s updated underlying forecast increased borrowing in most forecast years. The expectation of lower tax receipts (see [section 2.1](#)) was the main factor increasing borrowing. The deterioration in the underlying forecasts meant that, before the Government’s Budget policies were included, deficits were forecast for 2019/20 and 2020/21. Therefore in the absence of any Government intervention the fiscal mandate would not have been met.

The policy changes introduced by the Government ensure that the fiscal mandate is being met: the OBR’s final forecast shows a surplus in both 2019/20 and 2020/21. In 2019/20 a surplus similar in size to that forecast in November 2015 is expected.

The Government’s fiscal mandate requires a budget surplus to be reached by 2019/20, and in every subsequent year.

A budget surplus is achieved when the public sector spends less than it receives from taxes and other receipts.



### Government policy changes in 2019/20

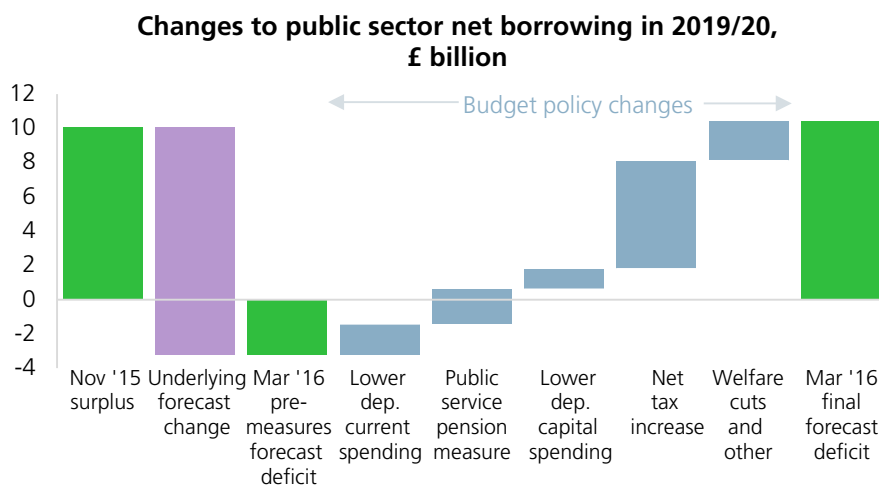
The Government’s Budget policy changes decrease borrowing by close to £14 billion in 2019/20. To reach a surplus similar to that forecast in November 2015, the Government has:

- reduced departments’ budgets for spending on day-to-day items** – known as current spending – **by £2.3 billion**. This is a net change which includes savings of £0.7 billion from the overseas aid budget and £3.5 billion to be identified from an ‘efficiency



review’, alongside a £1.9 billion increase in spending for new commitments.

- increased contributions from public sector employers to public service pensions, reducing expenditure by £2 billion.** The net public sector cost of providing public service pensions covers the Government’s spending on payments to recipients less the contributions received from employers and employees. Increasing contributions from public sector employers, but not reimbursing them for the additional costs, provides a saving to Government as it decreases its net spending on the payments to recipients.
- decreased departments’ capital budgets**, largely by bringing forward spending that was expected in 2019/20 to 2017/18 and 2018/19. The Government says that they are ‘accelerating investment plans’.
- announced a net tax increase of £6.3 billion.** The net increase is largely a result of delaying, to April 2019, a measure that brings forward large firms’ quarterly corporation tax payments. This change increases revenues by £6 billion in 2019/20 and £3.6 billion in 2020/21. The measure was meant to happen in April 2017 but the Government has changed the date “to give businesses more time to prepare”. The delay reduces revenues in 2017/18 and 2018/19.
- reduced welfare spending** largely by changing the awards system for personal independent payments – a benefit for those with long-term ill-health or a disability.



### 3. Soft drink industry levy

The Budget included a levy on the producers of soft drinks. The rate of this levy will be dependent on the sugar content of the drink.

#### Background

The consumption of too much high sugar food and drink can lead to weight gain which can increase the risk of medical conditions such as type 2 diabetes, heart disease and stroke. High sugar consumption can also increase the risk of tooth decay. There has been particular concern around the impact of high sugar products on children, and the levels of obesity in this group. Both the World Health Organisation<sup>3</sup> and the Scientific Advisory Committee on Nutrition<sup>4</sup> have recommended a reduction in the daily intake of free sugars in 2015.<sup>5</sup>

The proposal for a tax on sugar sweetened drinks has been supported by a number of medical organisations, such as the British Medical Association<sup>6</sup> and the Faculty of Public Health.<sup>7</sup>

In October 2015, Public Health England published its report, [Sugar Reduction: The evidence for action](#) which recommended interventions to reduce sugar consumption.<sup>8</sup> The report stated that no single action would be effective in reducing sugar intake. It recommended a broad range of different measures, one of those was an introduction of a tax on high sugar products. The report stated that *"it is likely that price increases on specific high sugar products like sugar sweetened drinks, such as through fiscal measures like a tax or levy, if set high enough, would reduce purchasing at least in the short term."*

The House of Commons Health Select Committee has also called for a tax on high sugar drinks in its November 2015 report on childhood obesity.<sup>9</sup>

#### A levy on soft drinks

The Chancellor has announced a levy on the producers of soft drinks, to be introduced in 2018. It is planned that the levy will consist of two rates, based on the sugar content of these beverages. Pure fruit juices and milk-based drinks are to be exempt from the levy, and there will be an exclusion for small producers. The Government intends to consult on the details of the levy over summer 2016, for legislation in Finance Bill 2017.<sup>10</sup>

<sup>3</sup> WHO, [WHO calls on countries to reduce sugars intake among adults and children](#), March 2015

<sup>4</sup> SACN, [Expert nutritionists recommend halving sugar in diet](#), July 2015

<sup>5</sup> Free Sugars is a term used by the World Health Organisation to describe "all monosaccharides and disaccharides added to foods by the manufacturer, cook, or consumer, plus sugars naturally present in honey, syrups, and fruit juices."

<sup>6</sup> BMA, [Doctors' leaders call for 20 per cent sugar tax amid warnings over impact of poor diet on nation's health](#), 13 July 2015

<sup>7</sup> FPH, [FPH welcomes publication of PHE's sugar report](#), October 2015

<sup>8</sup> PHE, [Sugar Reduction: The evidence for action](#), October 2015

<sup>9</sup> Health Select Committee, [Childhood obesity—brave and bold action](#), November 2015

<sup>10</sup> HM Treasury, Budget 2016, HC 901 March 2016 [para 1.90-96](#), [para 2.157](#)

In his Budget speech the Chancellor argued that the levy would create an incentive for producers to reduce sugar levels in products, and he observed that many drinks manufacturers were already reformulating their products to do this:

We are introducing the levy on the industry which means that companies can reduce the sugar content of their products, as many already do. It means that they can promote low-sugar or no-sugar brands, as many already are. They can take these perfectly reasonable steps to help with children's health. Of course, some may choose to pass the price on to consumers, and that will be their decision, and this would have an impact on consumption too.<sup>11</sup>

The Government has said that the expected revenue for this levy will be £520 million in the first year.<sup>12</sup> Based on this, the Office for Budget Responsibility has estimated that the rates implied are 18 pence/litre for the lower bracket sugary drinks, and 24 pence/litre for those drinks over 8g/litre.<sup>13</sup>

The levy introduced differs from a tax introduced in Mexico in 2014 where the tax was added to the price of the drink at the point of purchase. There, a 10% tax on the price of a drink, has resulted in an average of 6% reduction in sales of high sugar drinks (increasing to 12%) and a 4% increase in the purchase of untaxed drinks.<sup>14</sup>

The announcement in the Budget was well received by a number of medical organisations<sup>15</sup> and health charities.<sup>16</sup> However, some have commented that there is an uncertainty about whether the levy will have an impact on the consumption of sugar through soft drinks because it may not increase the price of the high sugar drinks.<sup>17</sup>

In their commentary on the Budget, the Institute of Fiscal Studies raised concerns about how effective the new levy might be. The decision that the new charge will be levied per litre of product, rather than per gram of sugar within the product, would mean that a high sugar product in effect pays less per gram of sugar than lower sugar products that are still within scope of the levy.<sup>18</sup>

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<sup>11</sup> [HC Deb 16 March 2016 c964](#)

<sup>12</sup> HM Treasury, [Budget 2016 Policy Costings, March 2016 p12](#)

<sup>13</sup> Office of Budget Responsibility, [Economic & Fiscal Outlook Cm 9212, March 2016 par 4.76](#)

<sup>14</sup> BMJ, [Beverage purchases from stores in Mexico under the excise tax on sugar sweetened beverages: observational study](#), January 2016

<sup>15</sup> Faculty of Public Health, [FPH warmly welcomes new sugar tax](#), 16 March 2016

<sup>16</sup> British Heart Foundation, [George Osborne announces levy on sugary drinks and a rise in tobacco tax](#), 16 March 2016

<sup>17</sup> Science Media Centre, [expert reaction to announcement in Budget of a soft drinks industry levy targeted at producers of soft drinks that contain added sugars, to be introduced in two years' time](#), March 2016

<sup>18</sup> Institute of Fiscal Studies, [IFS Budget briefing: The Soft Drinks Levy](#), 17 March 2016. See also, the opening remarks made by IFS director Paul Johnson at this event ([IFS March 2016 p7](#)).

## Proceeds from the levy

The Budget document provides more information about the investment of the money raised into school PE and sport provision and breakfast clubs:

- **double the primary school PE and sport premium from £160 million per year to £320 million per year** from September 2017 to help schools support healthier, more active lifestyles. This funding will enable primary schools to make further improvements to the quality and breadth of PE and sport they offer, such as by introducing new activities and after school clubs and making greater use of coaches
- **provide up to £285 million a year to give 25% of secondary schools increased opportunity to extend their school day** to offer a wider range of activities for pupils, including more sport
- **provide £10 million funding a year to expand breakfast clubs** in up to 1,600 schools starting from September 2017, to ensure more children have a nutritious breakfast as a healthy start to their school day<sup>19</sup>

The devolved administrations will receive money from this spending through the Barnett formula.

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<sup>19</sup> Budget 2016, HC 901 March 2016 [para 1.90-96](#)

## 4. Personal Independence Payment

The Government announced on 11 March 2016, and confirmed in Budget 2016, its intention to change the assessment criteria for the daily living component of Personal Independence Payment.

### What are disability benefits?

**Disability benefits** – specifically Disability Living Allowance, Personal Independence Payment and Attendance Allowance – are benefits paid to people to help them get around and/or with daily living activities and/or with care. They are **non-means-tested** benefits, **awarded at different rates according to level of need**.

**Disability Living Allowance (DLA)** is a benefit for people with disabilities who require care and/or assistance getting around. It comprises a **care award** and a **mobility award**; claimants may be eligible for either or both the DLA care and mobility components.

DLA ceased to be available for new claimants aged 16 or over on 8 April 2013. DLA can still be claimed for children aged under 16.

DLA can be awarded for either a fixed or indefinite period.

**Personal Independence Payment (PIP)** is a benefit for adults with disabilities who need help getting around and/or with daily living activities. PIP consists of a **daily living component** and a **mobility component**.

Intended to largely **replace DLA**, PIP was announced by the then Coalition Government in 2010. Roll-out began in April 2013. To qualify for PIP you must be 16 or older and, in most cases, under 65.

The new assessment for PIP was designed to “assess more accurately, objectively and transparently” the needs of claimants than the criteria applied to DLA claims.<sup>20</sup> PIP is normally **awarded for a fixed period**, at the end of which **claims can be reviewed and claimants re-tested**.

**Attendance Allowance (AA)** is a benefit paid to **adults aged 65 or over** in need of care. It is paid at a lower or higher rate according to the claimant’s supervision needs. AA can be awarded for a fixed or indefinite period.

Note the ‘disability benefits’ do not include Employment and Support Allowance.

### How many people claim disability benefits?

In August 2015 there were, in Great Britain, 3,049,080 DLA claimants and 551,224 PIP claimants; note that roll-out of PIP started in April 2013 and the caseload is, therefore, lower but increasing.<sup>21</sup> More recent

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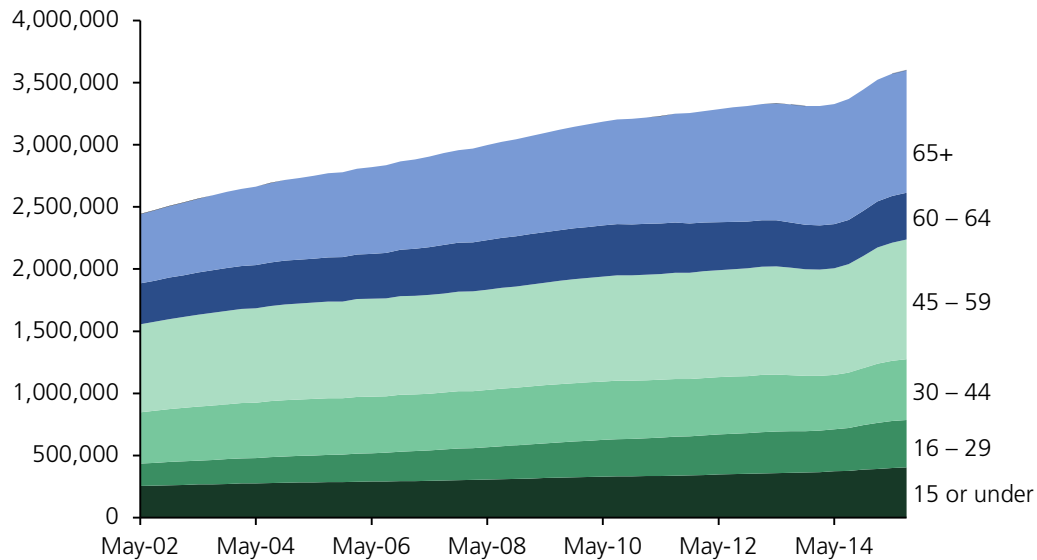
<sup>20</sup>

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220176/dla-reform-wr2011-ia.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220176/dla-reform-wr2011-ia.pdf)

<sup>21</sup> Tabtool and Stat Xplore

caseload data is available for PIP: as of January 2016, there were 692,104 claimants.

**Figure 1 Total Personal Independence Payment and Disability Living Allowance claimants by age, May 2002 to August 2015**



**Notes**

New claims to DLA for adults ceased April 2013; roll out of PIP began April 2013, for adults aged 16+ (and, in most cases, aged under 65)

**Sources**

DWP Tabulation Tool (100% caseload), DLA claims – all cases  
 DWP Stat Xplore, PIP all cases in payment

Total DLA and, after August 2013, DLA & PIP claimants rose from 2.5 million in August 2002 to 3.6 million in August 2015 (a 44% increase).

Claimants aged 65+ accounted for 37% of this increase, claimants aged 45-59 22% and claimants aged 16-29 18%.

The number of claimants aged 65+ grew the most in numeric terms, from 565,680 claimants in August 2002 to 984,966 claimants in August 2015, while the number of claimants aged 16-29 grew the most in percentage terms, from 256,640 claimants in August 2002 to 403,310 claimants in August 2015 (an 108% increase).

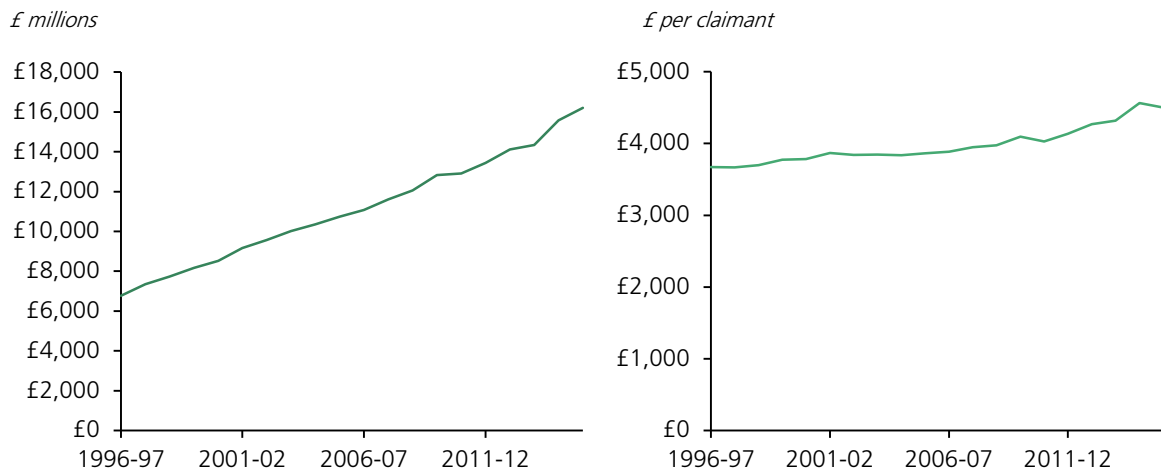
**Is the cost of disability benefits rising?**

DWP expenditure on disability benefits – here, specifically the cost of DLA and PIP – has risen in real terms every year since 1996-97.

Expenditure on DLA in 1996-97 was, in real terms 2015/16 prices, £6.78 billion. In 2015/16 expenditure on DLA and PIP was £16.2 billion, a 139% increase.

## Figure 2 Expenditure on DLA and PIP, 1996-97 to 2015-16

All figures in real terms 2015/16 prices, adjusted using financial year GDP deflators



### Sources

[DWP Benefit expenditure and caseload tables, Autumn Statement 2015](#)

[OBR Economic and Fiscal Outlook March 2016](#)

[HM Treasury GDP deflators](#)

Most of the rise in expenditure is accounted for by the increases in caseload discussed above. **Figure 2** shows, on the left, total expenditure on DLA and PIP in real terms and, on the right, total expenditure per claimant (in effect, the average award).

Expenditure per claimant in 1996-97 was, in real terms 2015-16 prices,<sup>22</sup> £3,670; in 2005-06 this was £3,865 and in 2015-16 £4,501. This is a 16% increase since 2005-06 and a 23% increase since 1996-97 (total expenditure has, in comparison, increase by 51% since 2005-06 and by 139% since 1996/96).

Note the Government has a statutory duty to uprate the components of both DLA and PIP in line with the cost of living (unlike most other working age benefits, for example, which were frozen for four years by the Summer Budget 2015). Prior to 2010-11 DLA and PIP were uprated using the Retail Price Index (RPI); the Coalition Government uprated using the Consumer Price Index (CPI) in 2010-11 and in subsequent years.

## What change to PIP was announced in Budget?

On 11 March 2016 the DWP announced “the Government is changing the assessment criteria for the daily living component of Personal Independence Payment”.<sup>23</sup>

The Government reached this decision following **consultation** on the **way in which points are assigned** for use of, and costs incurred by, aids and appliances within the **PIP claimant assessment**. It reached this decision as:

Further work by DWP health professionals has found that aids and appliances are not a reliable indicator of extra costs in all cases. In

<sup>22</sup> adjusted using GDP deflators

<sup>23</sup> DWP press release, [Personal Independence Payment consultation response announced](#), accessed 11 March 2016

96% of the cases they reviewed their view was that claimants were likely to have low, minimal or nil on-going extra costs. Many of the aids and appliances likely to be used are also often provided free of charge by the NHS and local authorities or can be purchased for a low one-off cost.<sup>24</sup>

In **Budget 2016** the Chancellor confirmed that the Secretary of State for Work and Pensions will continue to deliver PIP in line with its original intentions and to ensure support is better targeted.<sup>25</sup>

Specifically, the DWP has decided **to halve the number of points awarded for aids and appliances** used in relation to activity five of the PIP claimant assessment, **dressing and undressing**, and for activity six, **managing toilet needs**.<sup>26</sup> The Department regards these activities as less reliable indicators of extra, repeat costs incurred by claimants.

### How many people will be affected?

A number of figures have been quoted for the number of claimants affected by this change.

According to DWP, in 2020-21:

- 640,000 PIP re/applicants will “be in some way affected”.<sup>27</sup>

According to DWP estimates published by the OBR, in 2020-21:

- 290,000 re/applicants will lose their daily living activity award entirely or, if a new applicant, not qualify; and
- 80,000 re/applicants will fall from the enhanced daily living activity award to the standard award.<sup>28</sup>

The Institute for Fiscal Studies interpreted these estimates as meaning “370,000 people lose” (290,000 + 80,000).<sup>29</sup>

### How much will this save?

This measure will save, cumulatively from 2016-17 to 2020-21, £4.375 billion. It is expected to save £590 million in 2017-19, rising to £1,300 million in 2019-20 and £1,280 million in 2020-21.<sup>30</sup>

**Figure 3** shows estimated savings by year and the number of people affected. Note there are two ways in which someone may, upon assessment or reassessment for PIP, have their PIP award reduced as a result of this measure:

- 1- The applicant loses, or (if a new claim) does not qualify for, the daily living component of PIP

<sup>24</sup> DWP; [The Government response to the consultation on aids and appliances and the daily living component of Personal Independence Payment](#); page 4

<sup>25</sup> HM Treasury, [Budget 2016, Chancellor’s speech](#); also see page 26 of the [Budget 2016 red book](#)

<sup>26</sup> DWP; [The Government response to the consultation on aids and appliances and the daily living component of Personal Independence Payment](#); page 5

<sup>27</sup> DWP; [The Government response to the consultation on aids and appliances and the daily living component of Personal Independence Payment](#); page 19

<sup>28</sup> [OBR Economic and Fiscal Outlook March 2016](#); paragraph 4.112 page 147

<sup>29</sup> Adam, Stuart; [Institute for Fiscal Studies Personal taxes and benefits post Budget 2016 briefing](#); slide 16

<sup>30</sup> Budget 2016 red book, table 2.1



- 2- The applicant is awarded the daily living component at its standard rate where otherwise, without this change, they might have expected to be awarded the enhanced rate.

**Figure 3 Estimated savings and number of people affected**



**Notes**

Note that estimates for total number of people affected are not cumulative. That is to say, this table does not show that a total 1.2 million people will be affected 2016-17 to 2020-21. This is as a single person can be affected in multiple years.

**Sources**

House of Commons Library estimates for years 2016-17 to 2019-20  
[OBR Economic and Fiscal Outlook March 2016](#); paragraph 4.112 page 147

**How will these changes be implemented?**

The regulations governing PIP payments are the *Social Security (Personal Independence Payment) Regulations 2013* as amended by the *Social Security (Personal Independence Payment) (Amendment) Regulations 2013*.

These regulations were made under powers contained in the Welfare Reform Act 2012. The initial regulations were subject to the affirmative resolution procedure (i.e. a draft had to be laid before each House and approved before the regulations could be 'made' (signed) and enter into force).

Subsequent amending regulations are subject to the negative resolution procedure (i.e. they are made and laid before each House, and may enter into force on a specified date: each House has 40 days to pass a motion to annul them, but they may enter into force before that 40-day 'praying' period has expired).

The regulations contain the current assessment criteria for PIP. Introducing the changes will require an amendment to the regulations. DWP has indicated that any amendments are intended to enter into force on 1 January 2017.

Because the amending regulations concern social security, and they are to be made more than six months after the passage of the parent Act, they may be subject to the requirement in the *Social Security Administration Act 1992* that a draft be referred to the Social Security Advisory Committee for advice before they are made and come into force.

## 5. Business rates

In the Budget the Chancellor announced changes to the business rates system. For the past two years the Government has been undertaking a review of the business rates system in England.

### 5.1 Small Business Rate Relief

As of 1 April 2017, permanent changes will be introduced to the Small Business Rate Relief system.

- Properties with a rateable value of £12,000 or less will attract 100% business rates relief;
- Properties with a rateable value of £12,000 to £15,000 will attract some business rate relief on a tapering scale;
- Properties with a rateable value between £15,000 and £51,000 will be subject to the small business multiplier (48p instead of 49.3p in 2015-16).

Local government – which is part funded from business rates income – “will be compensated for the loss of income as a result of the business rates measures above”.<sup>31</sup> This is likely to be done via a ‘Section 31 grant’.<sup>32</sup>

The business rate multiplier is currently updated each financial year by a maximum of the Retail Price Index (RPI) in the previous September. The Budget committed to replacing this use of RPI with the Consumer Price Index (CPI). This will take effect in the 2020/21 financial year.

The above changes are estimated to reduce revenues by “£6.7 billion over the next five years”. This is a cumulative figure for the financial years in question, amounting to some £1.4 billion per annum.

### 5.2 Responses to business rate review

The Government had previously committed to publishing a response to the ongoing business rates review alongside the Budget. As of the morning of 17 March, no separate document had been published. However, a number of items in the main Budget document address matters that were being covered by the Review:

The Government committed to publishing a discussion paper, in March 2016, on how to move to more frequent business rate revaluations (at least every three years).<sup>33</sup>

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<sup>31</sup> HM Treasury, *Budget 2016*, p.47

<sup>32</sup> A ‘Section 31 grant’ is given under section 31 of the Local Government Act 2003, which provides powers to give grants to local authorities for any purpose. The chair of the Communities and Local Government Committee has [written to the Secretary of State](#) asking for confirmation that lost revenue will be fully compensated.

<sup>33</sup> HM Treasury, *Budget 2016*, p. 46

- The Government committed to working with local authorities to standardise business rate bills across England and to ensure that ratepayers can pay bills online by April 2017.
- The Government will “consider the feasibility of replacing Small Business Rate Relief with a business rates allowance for small businesses”.<sup>34</sup>

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<sup>34</sup> Ibid.

## 6. Public service pensions – the discount rate

Budget 2016 announced a reduction in the discount rate to be used in valuations of unfunded public service pension schemes (i.e. those schemes that operate on a pay-as-you-go basis, whereby contributions are paid to the sponsoring government department, which meets the cost of pensions in payment, netting off contributions received). Almost all the main public service schemes – i.e.; those for teachers, NHS, civil servants, police, armed forces and firefighters - operate on this basis. Only the local government pension scheme (LGPS) is funded.<sup>35</sup>

The unfunded schemes are subject to actuarial valuations every four years. The purpose is to assess the value of pension rights being built up, so that the contributions to the scheme (from employers and employees) can be set at a level to reflect this. This is so that “the full costs of the scheme are taken into account when financial decisions are made by employers.”<sup>36</sup>

The valuations must be undertaken in accordance with Treasury directions which, among other things, specify the ‘discount rate’ that should be applied in order to assess the present costs of future benefits.<sup>37</sup> A reduction in the discount rate has the effect of increasing the cost of future benefits and therefore the employer contributions required.<sup>38</sup>

Following a review in 2010-11, the discount rate for public service pension contributions is aligned to expected GDP growth.<sup>39</sup> In his 2016 Budget speech, the Chancellor said it had reviewed the discount rate with the result that employer contributions would rise:

We are also going to keep public sector pensions sustainable. We reformed them in the last Parliament, which will save more than £400 billion in the long term. To ensure that those pensions remain sustainable, we have carried out the regular revaluation of the discount rate, and the public sector employer contributions will rise as a result. This will not affect anyone’s pension, and will be affordable within spending plans that are benefiting from the fiscal windfall of lower inflation.<sup>40</sup>

The Budget policy costings document explained:

### The discount rate

Is a figure used to convert future cash flows into a single figure in today’s terms. It is the equivalent of working out how much needs to be invested today in order to pay a promised level of benefits in, say, ten years’ time.

<sup>35</sup> For more detail, see section 4 of Library Briefing Paper [SN-06183](#) (August 2012)

<sup>36</sup> HM Treasury, [Public service pensions: actuarial valuations and the employer cost cap mechanism](#), March 2014

<sup>37</sup> [Public Service Pensions Act 2013](#), s11; HM Treasury, [Public service pensions: actuarial valuations and the employer cost cap mechanisms](#), March 2014, para 1.22

<sup>38</sup> The level of employee contributions is set in scheme regulations

<sup>39</sup> HM Treasury, [Consultation on the discount rate used to set unfunded pension contributions](#), December 2010, para 1.29; HM Treasury, [Consultation on the discount rate used to set unfunded pension contributions](#), April 2011 chapter 3 and para 4.3; [HC Deb 5 April 2011 c52WS](#)

<sup>40</sup> [HC Deb 16 March 2016 c955](#); HM Treasury, [Budget 2016](#), 16 March 2016, para 1.58

### Measure description

This measure changes the discount rate used to set employer contribution rates in the unfunded public service pension schemes. The measure changes the discount rate from 3% to 2.8%, to reflect the OBR's current long-term forecast of GDP growth. The discount rate was last set in 2011, at which point the Government committed to review the rate in 5 years.

### The cost base

This measure is expected to increase the employer contributions made to the unfunded public service pension schemes by £2bn per annum from April 2019. This will produce an increase in Public Service Pension Scheme income from 2019-20. Payments to beneficiaries are unchanged by the measure. The overall impact is therefore a reduction in Public Service Pensions Scheme expenditure, the amount paid (or received in the event of a surplus) by the Exchequer to make up any difference between income and expenditure.<sup>41</sup>

The costing is an estimate using scheme data from March 2012. Final results will use scheme data as at March 2016.<sup>42</sup>

The Office for Budget Responsibility (OBR) report said the Government did not plan to compensate employers for the additional cost:

The Government has also placed an additional £2.0 billion a year squeeze on departments in [2019/20] by raising planned public service pension contributions, in line with a lower discount rate, but not compensating them for the additional costs they will face. This reduces borrowing by displacing other departmental spending within existing expenditure limits, while reducing net spending on public service pensions.<sup>43</sup>

When the discount rate was last reduced in 2011, the Government said "departmental budgets set in the Spending Review will not come under additional pressure due to a change in the discount rate."<sup>44</sup>

The Association of Colleges estimated the extra costs for employers in the teachers, NHS and armed forces schemes from the reduction announced in Budget 2016:

This saving for the Treasury is a cost paid by public service employers, including schools, colleges, hospitals and the armed forces. The amount that they pay as employers to public sector schemes is set by the Treasury following a valuation by the Government Actuary. The lower discount rate (interest rate) on public sector pensions means that the next valuation of various schemes (teachers, NHS, civil service etc) will report a higher net present value (NPV) for future pension costs and thus a higher liability. This means that the deficit will be bigger and there will be a greater need for future contributions [...]

OBR publishes Information on public sector pensions every time there is a budget or autumn statement. Table 2.22 reports a budget for total employer contributions of £19 billion in 2019-20 of which £4.2 billion is from TPS employers. On the assumption

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<sup>41</sup> HM Treasury, [Budget 2016 –policy costings](#), p70

<sup>42</sup> Ibid

<sup>43</sup> OBR, [Economic and fiscal outlook](#), March 2016, p7

<sup>44</sup> Ibid para 1.31-2

that the Treasury estimates are right and there are no other changes in the valuation, this implies an extra cost for TPS employers (state schools, private schools, colleges and new universities) of about £430 million. Or, to put it another way, the employer contribution rate can be expected to rise from its current level at 16.48% to just over 18%.

On the same basis, the cost for the NHS in 2019-20 will be £665 million and the cost for the cost for the Armed services £300 million. The exact amounts will be different because of the different characteristics, funding levels, age profiles and employee contributions in each scheme. Nevertheless it is important to understand that the saving for the Treasury is a disguised cut to departmental spending. All of this is fairly speculative because the government actuary may make other changes when he/she comes to do the TPS valuation.<sup>45</sup>

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<sup>45</sup> AoC, [School and college contributions to teacher pensions may rise above 18%](#), 16 March 2016; See OBR, [Economic and fiscal outlook supplementary fiscal tables](#), March 2016, table 2.22

## 7. Lifetime ISA

In July 2015, the Government launched a consultation on reforming pension tax relief with the aim of strengthening the incentive to save.<sup>46</sup> Subsequent debate focused on three approaches to reform:

- **A shift to a single-rate of relief**, possibly rebadged as 'matching contributions' from the Government. Advocates of this approach say it would improve incentives to save for low earners and could reduce Exchequer costs. On the other hand there are those who argue that it would be expensive and complex to administer, unfair and inappropriately distort behaviour.
- **Moving to a TEE (taxed-exempt-exempt) system** where contributions are made out of taxed incomes (and then topped-up by the Government) while investment returns and any income ultimately received would be tax-free. Advocates of this approach say it could allow individuals to better understand the benefits of contributing to a pension and make the Government's contribution more transparent. Others argue that it would be very complex in transition, could undermine pension saving and have a negative fiscal impact.
- **Retaining the current system**, with some modifications, for example regarding the lifetime allowance and annual allowance. This would have the advantage of lower implementation costs, meaning that reforms could be delivered quickly and with minimal risk.<sup>47</sup>

In his Budget speech on 16 March 2016, the Chancellor said there had been no consensus:

Over the past year, we have consulted widely on whether we should make compulsory changes to the pension tax system. But it was clear that there was no consensus.<sup>48</sup>

However, the Government would introduce measures to encourage saving through an increase in the ISA limit and a new Lifetime ISA for the under 40s:

We know people like ISAs—because they are simple. You save out of taxed income, everything you earn on your savings is tax-free, and it is tax-free when you withdraw it too. From April next year, I am going to increase the ISA limit from just over £15,000 to £20,000 a year for everyone. For those under 40, many of whom have not had such a good deal from the pension system, I am introducing a completely new, flexible way for the next generation to save. It is called the Lifetime ISA. Young people can

<sup>46</sup> HM Treasury, [Strengthening the incentive to save: a consultation on pensions tax relief](#), Cm 9102, July 2015

<sup>47</sup> For more detail, see Library Briefing Paper CBP-07505 [Reforming pension tax relief](#) March 2016

<sup>48</sup> [HC Deb 16 March 2016 c966](#): A [summary of the consultation responses](#) was published



put money in, get a Government bonus, and use it to either buy their first home or save for their retirement.<sup>49</sup>

The Budget document provided further details of the lifetime ISA:

**1.108** The government wants to help young people save flexibly for the long term and ensure they do not have to choose between saving for retirement and saving for their first home. **The Budget announces that from 6 April 2017 any adult under 40 will be able to open a new Lifetime ISA. They can save up to £4,000 each year and will receive a 25% bonus from the government on every pound they put in.**

**1.109** Contributions can continue to be made with the bonus paid up to the age of 50. **Funds can be used to buy a first home with the government bonus at any time from 12 months after opening the account, and can be withdrawn from the Lifetime ISA with the government bonus from age 60 for use in retirement.**

**1.110** **The government will set the limit for property purchased using Lifetime ISA funds at £450,000. This limit will apply nationally.** People can continue to open a Help to Buy: ISA until November 2019, as planned. They can also choose to open a Lifetime ISA, but will only be able to use the government bonus from one of their accounts to buy their first home. During the 2017-18 tax year, those who already have a Help to Buy: ISA will be able to transfer the savings they have built up into the Lifetime ISA and still save an additional £4,000.

**1.111** Whilst this is a product aimed at encouraging saving for the long term, the government understands that circumstances change so wants to ensure that people can access their own money if they need it whilst also keeping an incentive to leave funds invested for the long term. **The government will consider whether Lifetime ISA funds plus the government bonus can be withdrawn in full for other specific life events in addition to buying a first home.**

**1.112** The government proposes that savers can make withdrawals at any time for other purposes, but with the bonus element of the fund plus any interest or growth on it returned to the government, and a small 5% charge applied. The government will also explore with the industry whether there should be the flexibility to borrow funds against the Lifetime ISA without incurring a charge if the borrowed funds are fully repaid. In the US some retirement plans allow 50% to be borrowed up to a maximum of \$50,000. Further details on the Lifetime ISA are set out in the document published alongside Budget.<sup>50</sup>

Further details are available in a [Lifetime ISA factsheet](#) and a [technical note](#) on the design.

The announcement was welcomed by the Centre for Policy Studies as similar to a proposal it had made in the past.<sup>51</sup> Others welcomed it but expressed concern about the possible impact on pension savings. The Association of British Insurers said:

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<sup>49</sup> Ibid

<sup>50</sup> HM Treasury, [Budget 2016](#), HC 901, para 1.108-9

<sup>51</sup> [CPS Budget 2016 Reaction by Head of Economic Research Daniel Mahoney](#), 16 March 2016; [Introducing the Lifetime ISA, CPS, August 2014](#)

Anything that helps people to save more should always be welcomed. But for most people's retirement outcomes, employer contributions paid into a workplace pension will be critical. The test for success for the lifetime ISA will be whether it increases overall retirement savings and does not undermine the auto-enrolment programme; this must not be a backdoor to pension ISA.<sup>52</sup>

Others argued that details would be critical to the success of the scheme. The Pensions and Lifetime Savings Association said:

The introduction of a Lifetime ISA is an interesting initiative to help younger people add to their pension and lifetime savings. We look forward to working with the Government to help make sure that the Lifetime ISA does help younger people build up their savings. An important part of this will be to make sure that savers' interests are protected by ensuring that the regulation on charges and governance of the Lifetime ISA are comparable to those for pensions, which have been reviewed to make sure they offer savers good value.<sup>53</sup>

Former Pensions Minister Steve Webb, now director of policy at Royal London, said the Lifetime ISA would be unsuitable as a retirement product for many people:

Analysis of the details of the new Lifetime ISA by Royal London shows that it would be unsuitable as a retirement product for many people, especially if the opt for an ISA over a workplace pension. This is particularly true beyond the age of fifty when the Government matching contribution is switched off. Inadequate retirement savings will force millions of young people to work well beyond retirement ages. Unless young employees access financial advice there is a real risk that their desire to save for a house could lead them to put all their savings eggs in the LISA basket, leaving them with a lower income in retirement.<sup>54</sup>

The Investment Association welcomed the fact that the incentives to save in a workplace pension had been left in place and welcomed the lifetime ISA as an "exciting development."<sup>55</sup> However, others described it as "essentially a new pension regime through the backdoor" and thought reform of pension tax relief would follow.<sup>56</sup>

The Office for Budget Responsibility (OBR) expected the policy to cost £0.8 billion by 2019/20 but said this had a very high uncertainty rating.

The main source of uncertainty is the behavioural impact, because the cost of the top-up is extremely sensitive to it. In particular, assumptions are made about: the number of people choosing to use the lifetime ISA; how much they choose to save; and when they choose to withdraw. There is little information that can be

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<sup>52</sup> [ABI press release 17 March 2016](#),

<sup>53</sup> [Pension and Lifetime Savings Association comments on Budget 2016, 16 March 2016](#); [BBA press release 17 March 2016](#)

<sup>54</sup> [Lifetime ISA could force young people to 'work until they drop' – Steve Webb, Royal London press release, 18 March 2016](#)

<sup>55</sup> [Boost for millennial savers as productivity and investment underpin Budget 2016, 16 March 2016](#)

<sup>56</sup> Lifetime ISA is 'backdoor change to pensions' industry says, *Financial Times*, 18 March 2016

used to inform these assumptions and the behaviour is dependent on a variety of other factors, which amplifies the uncertainty.<sup>57</sup>

The IFS said there was little detail on what the Government expected (in terms of new saving versus the shifting of existing funds) and that the policy was potentially expensive.<sup>58</sup>

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<sup>57</sup> OBR, [Economic and Fiscal outlook](#), March 2016, p166 and 217-8; See also, HM Treasury, [Budget 2016 policy costings document](#), 16 March 2016

<sup>58</sup> IFS, [Personal taxes and benefits – Stuart Adam](#), 17 March 2016; Lifetime ISA is ‘backdoor change to pensions’ industry says, *Financial Times*, 18 March 2016

## 8. Schools policy measures

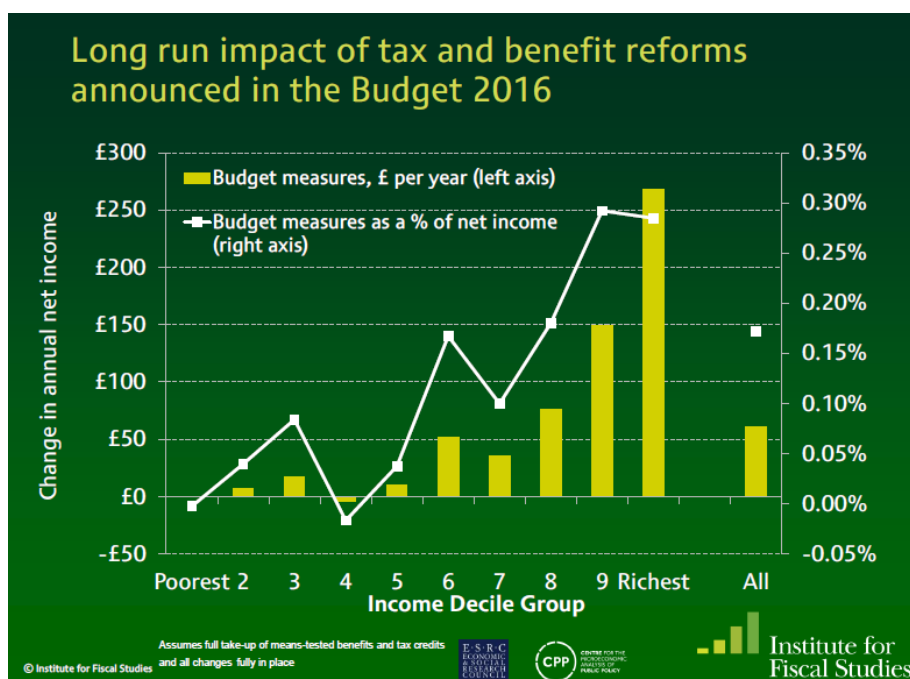
The Budget announced the following measures relevant to schools:

- That **all state-funded schools in England will become academies by 2022**. All schools will be expected to either have converted, or have an order for conversion in place, by 2020.
- An **additional £500million of additional core funding to schools** was announced, over the course of this Spending Review, to accelerate the move to a national funding formula for schools. Subject to consultation, the Government's aim is for 90% of schools who gain additional funding to receive the full amount they are due by 2020.
- The establishment of a **review into the study of maths from 16 to 18**, including the case for more or all students to study maths to age 18, headed by Professor Sir Adrian Smith.
- The new **Northern Powerhouse Schools Strategy**, funded with £20million per year, to address divides in educational attainment. Sir Nick Weller will lead a connected report into education across the Northern Powerhouse region. The strategy includes plans to:
  - Boost investment in the poorest performing areas;
  - Increase funding to see the best academy chains expand and to develop new sponsors in the north;
  - Establish a new northern centre of the New Schools Network to encourage more free schools in the region;
  - Consider further ways to hire and retain the best teachers in the region.
- The **doubling of the primary school PE and sport premium in England from £160 million per year to £320 million per year** from September 2017, funded by revenue from the soft drinks industry levy.
- Up to £285 million a year to give 25% of secondary schools **increased opportunity to extend their school day**.
- The provision of **£10 million funding a year to expand school breakfast clubs**, in up to 1,600 schools starting from September 2017.
- The provision of £14 million over the Spending Review period to deliver a **mentoring scheme for disadvantaged young teenagers**.

A White Paper, [Educational Excellence Everywhere](#), setting out in detail the Government's schools policies, was subsequently published on 17 March.

## 9. Distributional impacts

Compared to last year's Summer Budget, the average impact of tax and benefit changes announced in the 2016 Budget on household incomes is small. The Institute for Fiscal Studies (IFS) has estimated the average annual percentage change in net income going to households in each income decile group (i.e. 10% band of the income distribution), as a result of tax and benefit changes announced in the Budget:<sup>59</sup>



The main impact on average household incomes arises from increasing the Personal Allowance and the higher-rate threshold for income tax. Lifting these thresholds predominately benefits higher-income households. The Resolution Foundation estimates that 80% of gains go to the top half of the income distribution and just under half of the gains (47%) go to the 20% of households with the highest incomes.<sup>60</sup>

The increase in the Personal Allowance has little impact on the lowest income households, since members of these households may already be earning below the Personal Allowance or may not be in employment. The Institute for Fiscal Studies estimates that 43% of adults have incomes too low to pay income tax.<sup>61</sup>

The average change in household incomes resulting from the tax and benefit changes in this Budget is relatively small: even for the richest 20% of households (who see the biggest boost to their income), the average annual increase in net income is around 0.3%. If we look at the total impact of tax and benefit changes announced since the May 2015 election, average income losses for households in the bottom half of the income distribution are much larger. [IFS estimates](#) show the impact on households once all changes are in place (slide 4).

<sup>59</sup> IFS Post-Budget Analysis 2016, [Distributional analysis](#)

<sup>60</sup> Resolution Foundation, [Budget 2016 Response](#), 17 March 2016

<sup>61</sup> IFS Post-Budget Analysis 2016, [Personal taxes and benefits](#)

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