HOUSE OF COMMONS LIBRARY

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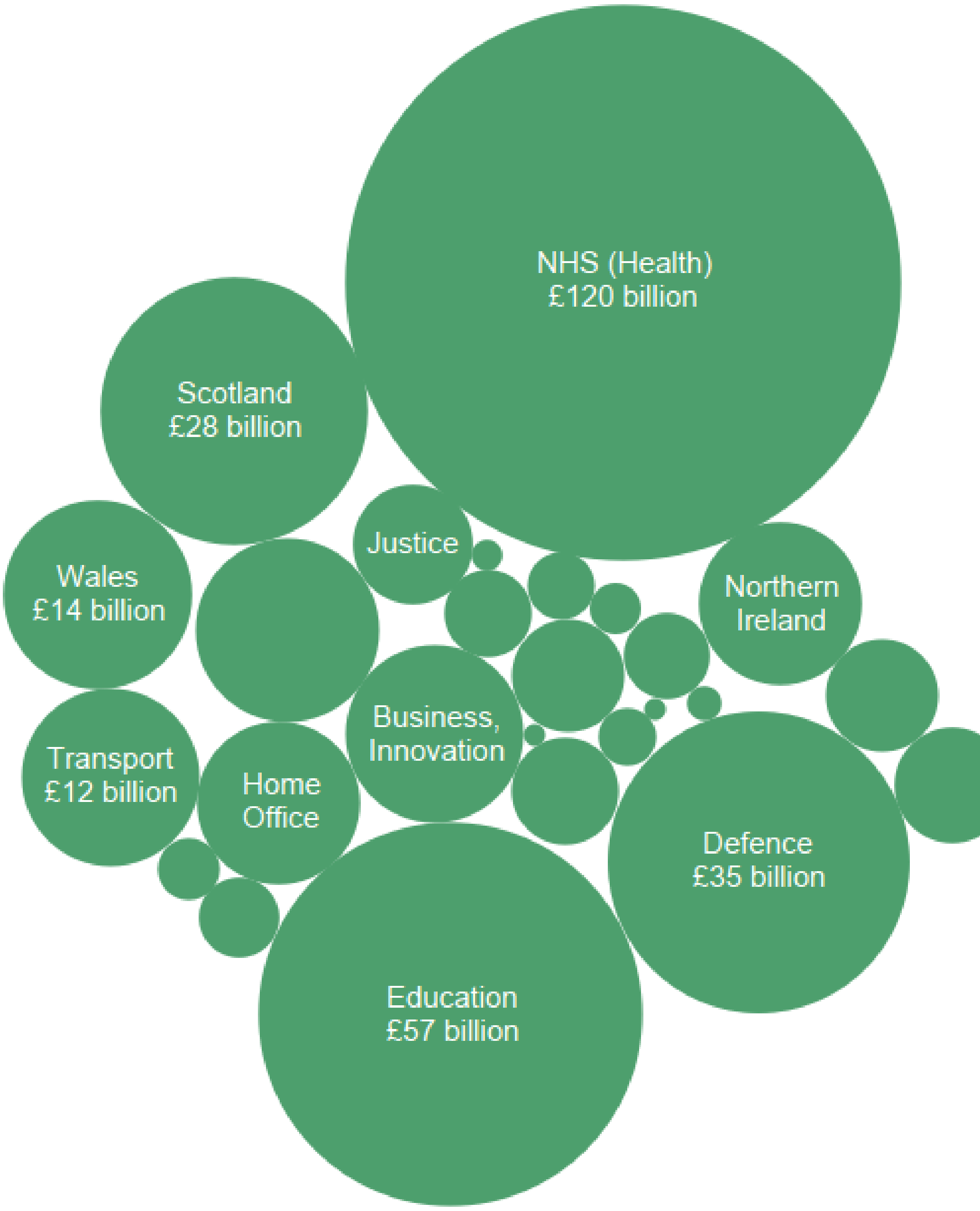
Spending Review and Autumn Statement 2015: a summary

By Matthew Keep
Jeanne Delebarre
Richard Keen
Chris Rhodes
Wendy Wilson

Real terms total departmental spending 2019/20



2015/16 prices total DEL

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Contributing Authors:

Jeanne Delebarre, apprenticeship levy
Richard Keen, benefits and tax credits
Matthew Keep, forecast and public finances
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Wendy Wilson, housing

1. Autumn Statement and Spending Review measures at a glance

The Autumn Statement and Spending Review 2015 was presented by the Chancellor of the Exchequer to Parliament on 25 November 2015. At the same time the Office for Budget Responsibility (OBR) published updated forecasts in its Economic and Fiscal Outlook.

This note provides an overview of the forecasts, the Spending Review, and the welfare cap. Announcements made on the apprenticeship levy, housing and tax credits are also discussed.

At a glance

- The Chancellor has reversed planned changes to the taper rate and income thresholds within **tax credits** (see section 6). Changes to Universal Credit announced at Summer Budget 2015 will go ahead as planned from 2016/17.

- The OBR judge that the Government will not meet the **welfare cap** in 2016/17, 2017/18 and 2018/19. (see section 7)

- An **apprenticeship levy** will be introduced in April 2017. The levy will be set at 0.5% of an employer's paybill, and each employer will receive a levy-free allowance of £15,000. (see section 8)

- Local authorities who provide **social care** will be able to include a **2% council tax precept** to fund social care services.

- **Stamp duty for buy-to-let properties and second homes** will be increased from April 2016. The rates will be 3% points above current stamp duty rates.

- Housing initiatives announced included a **London Help to Buy** scheme and **400,000 affordable housing starts** by 2020/21. The housing starts are to include **Starter Homes** and **Help to Buy: Shared Ownership Homes.** (see section 9)

- **Housing benefit** for new social tenants will be capped at same level as received by private sector tenants. (see section 9.2)

- The **Welsh Government** will receive a **funding floor**. The floor will ensure that the relative funding provided to the Welsh Government will be at least 115% of comparable spending in England. (see section 2.4)

- The Government will launch a consultation on a **new national funding formula for schools**, high needs and early years in 2016. The new formula will be implemented from 2017/18.

- An increase in forecast tax receipts and decrease in forecast debt interest payments (see section 5) has allowed the Government to

increase capital spending, **reverse tax credits cuts** and **reduce cuts to departmental spending.**

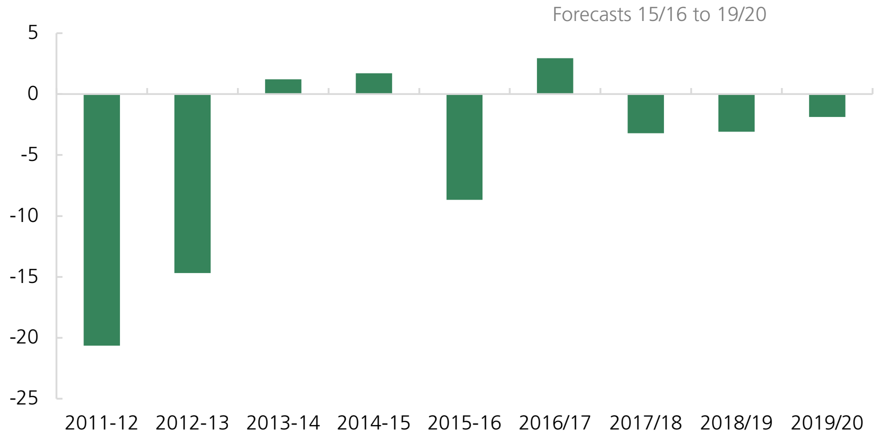
- **NHS spending** will increase by £10 billion between 2014/15 and 2020/21. (see section 2.3)
- **Schools budget** to be **protected in real terms** over the Spending Review period.
- **The Ministry of Defence Single Intelligence budgets** will rise in real terms. (see section 2.3)
- **Police funding** is protected in real terms over the Spending Review period, although the total Home Office budget will see a 5% fall. (see section 2.3)
- The **Department for Business Innovation and Skills** will see a real terms budget reduction of a quarter, despite protection of the **capital science budget**. (see section 2.3)
- Spending on **transport infrastructure** will see a real terms increase of 75% to £11.4 billion in 2019/20. (see section 2.3)
- Each of the **devolved administrations** will see a real terms budget reduction of around 4% over the Spending Review period. (see section 2.4)

2. The Spending Review

The Spending Review/Autumn Statement gave detailed figures on spending by departments and the overall change in public spending up to 2019/20.

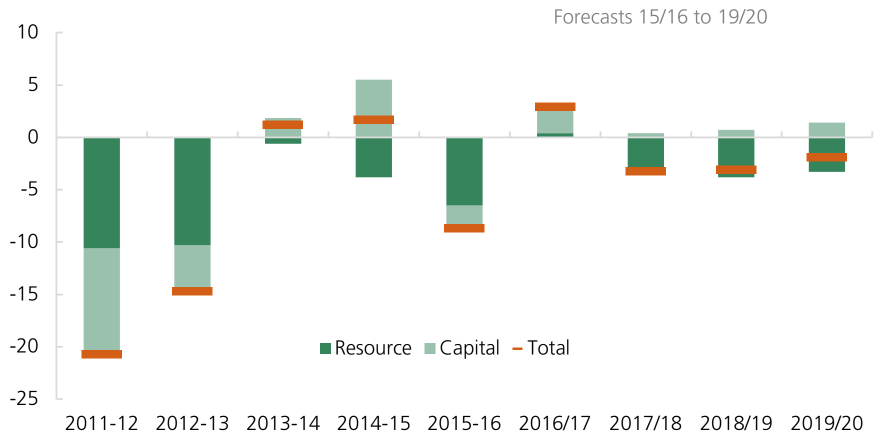
Total DEL spending[1] is forecast at £352 billion in 2015/16. It will rise by £3 billion in 2016/17 and is then forecast to fall in real terms in each year of the Spending Review period, compared to the previous year.

Total DEL, £ billions change on year
2015/16 prices



Capital spending (on assets and infrastructure) and resource spending (on public services and salaries) are set to change at different rates. The following chart shows the same data as above, but highlights the capital and resource components of total DEL.[2]

£ billions change on year
2015/16 prices

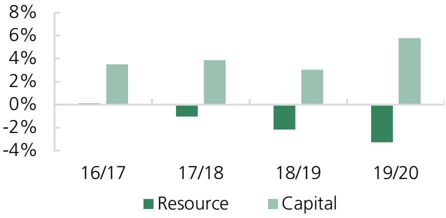


1 Public spending is divided into DEL (Departmental Expenditure Limits – the predictable elements of spending such as salaries) and AME (Annually Managed Expenditure, demand led spending such as welfare spending). The Spending Review deals mainly with DEL spending.

2 Figures have been adjusted to allow for discontinuities in the data.

Box 1: Capital spending

Change in capital and resource spending from 2015/16
Real terms cumulative % change



Public spending is divided into capital spending (on assets and infrastructure) and resource spending (on day-to-day items like salaries).

The Spending Review reduced resource spending by £10 billion or 3% between 2015/16 and 2019/20 in real terms. In contrast, capital spending is forecast to grow by £3 billion or 6%.

Most of the growth in capital spending is to occur in the Department for Transport budget. This will almost double from £6 billion to £11 billion over the period.

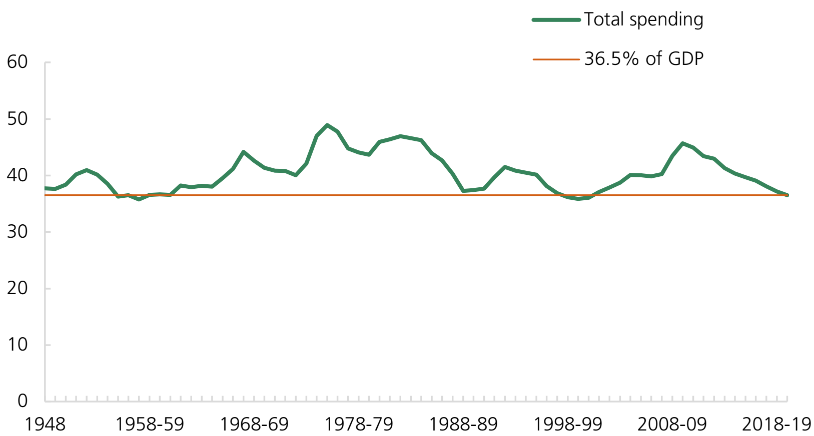
In 2015/16, Transport capital accounts for 14% of capital spending. In 2019/20 it will account for 23% and the department will have the largest capital spending of any department.

2.1 Spending as a proportion of GDP

In 2015/16, all public spending (Total Managed Expenditure or TME) will be 39.7% of GDP. In 2019/20 it is forecast to be 36.5% of GDP.

TME has been lower than 36.5% of GDP on only two occasions since the end of the Second World War – in the period 1998/99 to 2000/01 and between 1955/56 and 1960/61.

Total Managed Expenditure as a % of GDP



2.2 Spending between 2010/11 and 2019/20

The following table shows the change in resource DEL over the last Parliament, over this Parliament and over the whole decade.

Resource DEL changes

2015/16 prices

	£ billions	% change
2010/11 to 2015/16	-32	-9%
2015/16 to 2019/20	-10	-3%
2010/11 to 2019/20	-42	-12%

OBR, *Economic and Fiscal Outlook,* November 2015, supplementary fiscal table 2.16

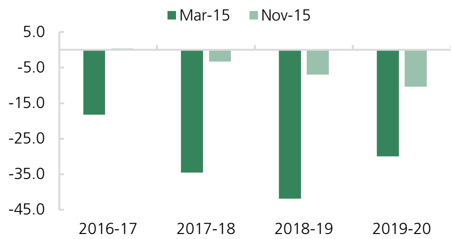
Adjusted by the OBR to remove historical discontinuities

Spending will fall by £42 billion or 12% over the decade from 2010/11 to 2019/20, in 2015/16 prices

Resource DEL fell by £32 billion over the last Parliament. Over this Parliament it is forecast to fall by £10 billion. So over the decade from 2010/11 to 2019/20, total DEL spending is forecast to fall by £42 billion or 12% in real terms.

Box 2: Changes to the spending forecast since the March 2015 Budget

rDEL forecasts, real terms change, £ billions
Cumulative from 2015/16, 2015/16 prices



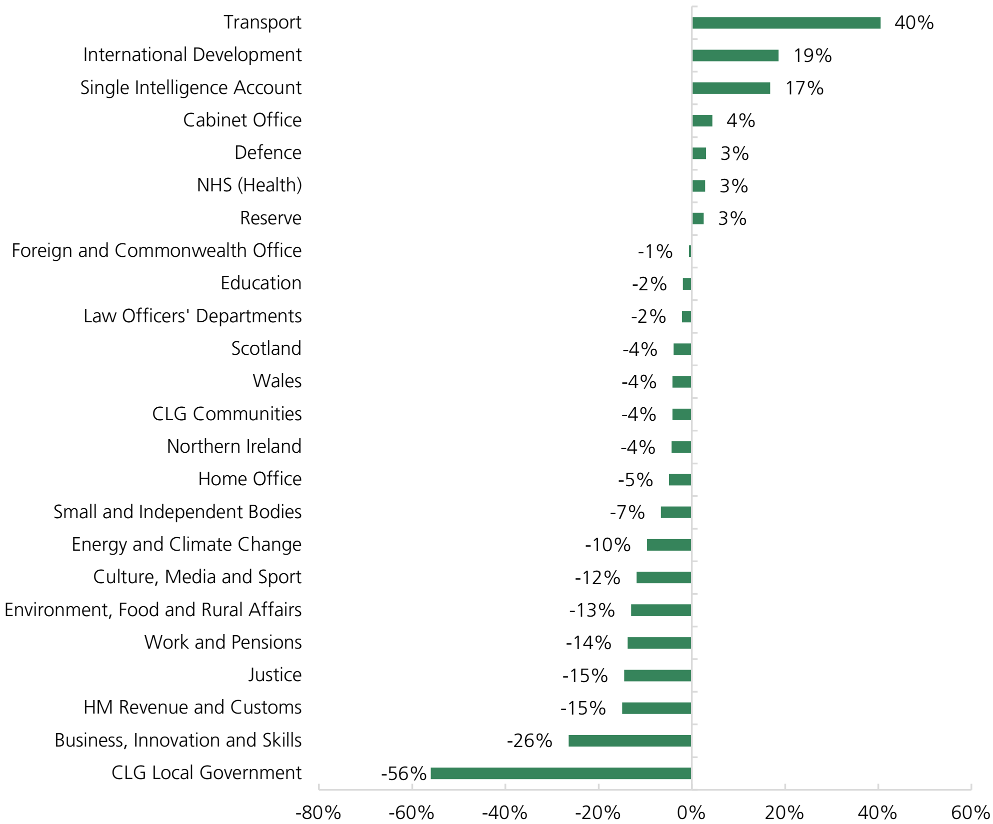
The March 2015 Budget included Resource DEL forecasts that were characterised by the OBR as having a "roller-coaster" profile because the reductions were deep at the beginning of the forecast period becoming more shallow towards the end.

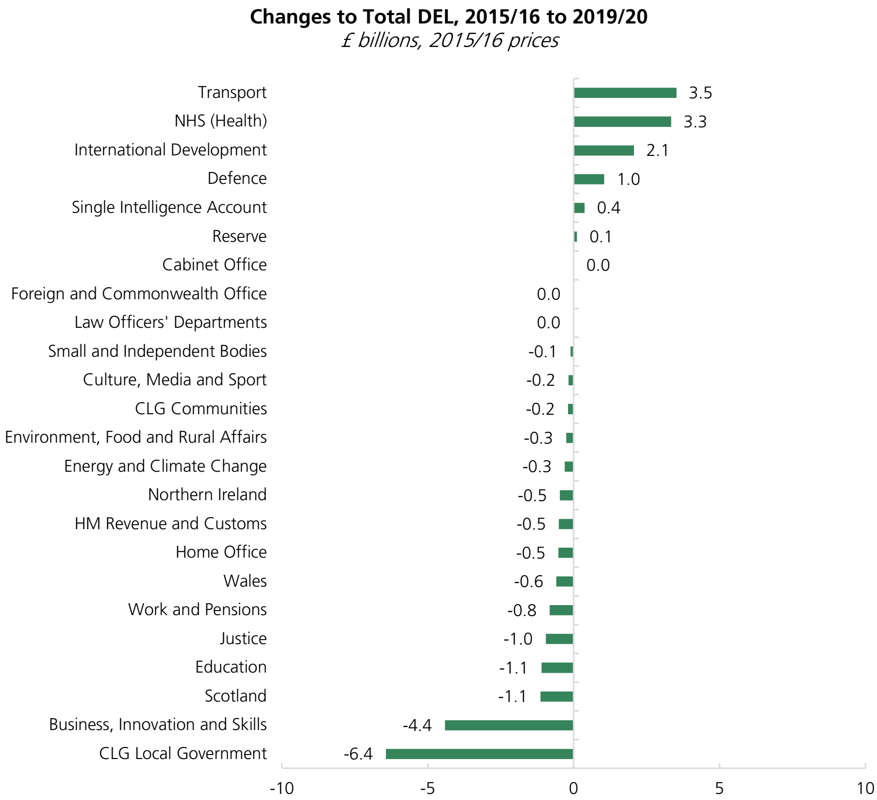
The Summer 2015 and Spending Review forecasts for spending "smooth" the profile of public spending considerably. They also reduce the overall scale of reductions.

The forecasts for rDEL from the March 2015 Budget suggested cumulative real terms reductions of £30 billion from 2015/16 to 2019/20. The figures published in the Spending Review suggest cumulative reductions of only £10 billion.

2.3 Changes in departmental budgets

% changes to Total DEL, 2015/16 to 2019/20
Real terms



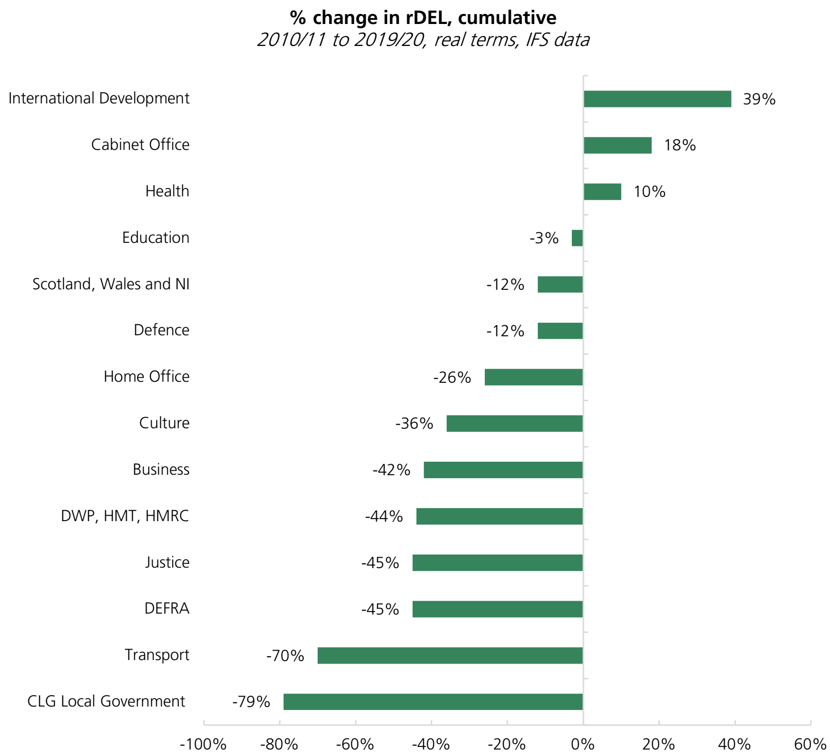


The charts on the previous page and above show how the departmental settlements announced in the Spending Review will change the departmental budgets up to 2019/20.

Total DEL for all departments is down 2% between 2015/16 and 2019/20 in real terms, and the individual departmental settlements vary quite widely around this figure.

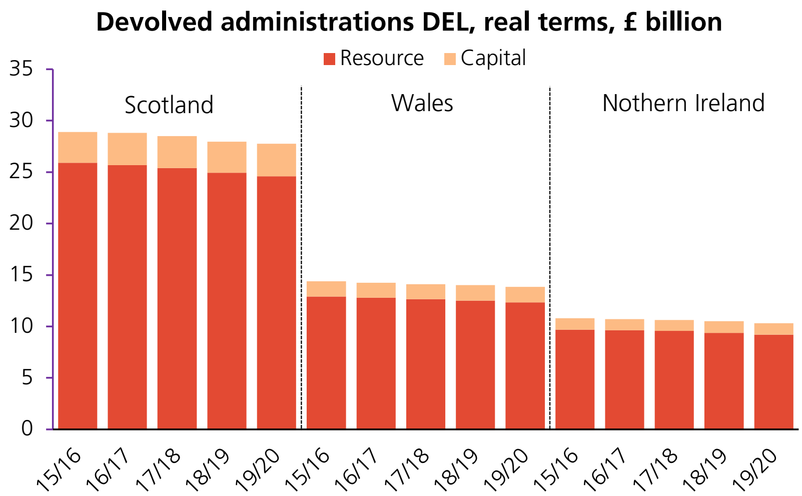
- The Department for Transport sees a 40% or £3.5 billion increase in its total DEL. This is down to big increases in its capital allocation. Department for Transport resource DEL falls 37% over the period.
- CLG local government, the main grant for local authorities, sees a fall of 56% or £6.4 billion. Note that this figure excludes locally financed spending (such as council tax). Taken together, the DCLG DEL and locally financed expenditure will fall by 6.7% in real terms between 2015/16 and 2019/20. This is discussed further in Box 3.
- Department of Health spending will increase £3.3 billion or 3% over the period. This is a historically small increase in health spending – between 1951/52 and 2009/10, health spending increased by more than 3% a year on average. The Government state that between 2014/15 and 2020/21, health spending will increase by £10 billion in real terms.

In general the departments with larger spending reductions between 2015/16 and 2019/20 also saw reductions over the last Parliament. For example, CLG local government's total DEL fell by 51% over the last Parliament and will fall by 56% over the next period. The following chart uses Institute for Fiscal Studies data to show the percentage change in departmental budgets from 2010/11 to 2019/20.



2.4 Devolved administrations

Devolved administrations' total DELs are to decrease by around 4% in real terms over the Spending Review period. Resource DEL makes up the vast majority of each administrations' total DEL. Wales's resource DEL will decrease by 4.5% while Scotland's and Northern Ireland's will decrease by 5%.



Calculating devolved administrations' DELs: the Barnett formula

Unlike departmental DELs the devolved administrations budgets are not negotiated, they are determined by the Barnett formula. The formula aims to give each administration the same pounds-per-person change in funding as the change in funding for comparable services provided by UK government departments. The Barnett formula is applied to annual changes in each departments' DEL and the sum of these 'Barnett consequentials' gives the change in devolved administrations' DELs.

The Government's approach to funding the devolved administrations, including the operation of the Barnett formula, is laid out in the Statement of Funding Policy which was updated alongside the Spending Review.

Wales's funding floor

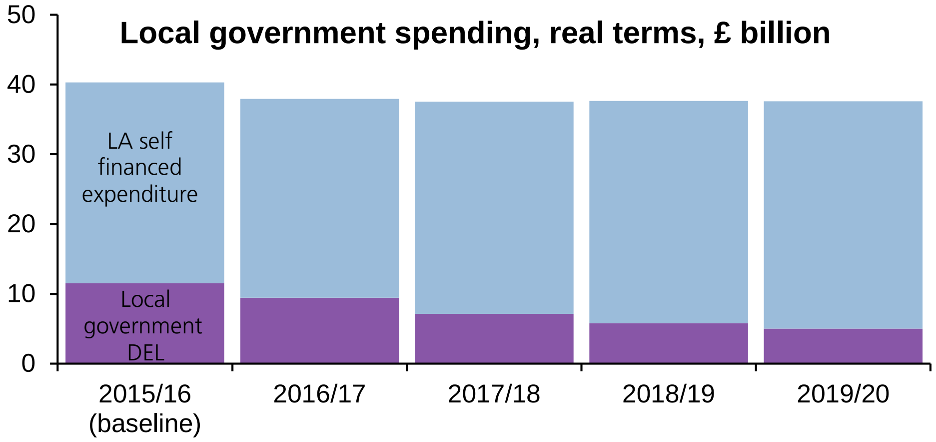
The Spending Review introduced a guaranteed floor for Wales's funding. In the future the Welsh Government will receive at least 115% of comparable UK government spending per head. The promise of a floor was made by the Coalition Government in February 2015 in the St David's Day Agreement.

The Holtham Commission, which considered funding for devolved government in Wales, recommended the introduction of a floor to prevent underfunding of public service in Wales. The Commission had identified a potential gap in the funding provided to the Welsh Government for services, relative to what it would receive if its services were funded on the same basis as in England. The Commission recommended a floor be introduced to prevent this gap widening.[3,4]

Box 3: English local government

Local Government DEL – local government's main grant from the Government – will decrease by over £6 billion over the Spending Review period, equivalent to a real terms decrease of 56%. The IFS estimate that by 2019/20 this element of councils' funding will have fallen by 79% since 2010/11.

Local authorities do however have other sources of income available to them, the largest being council tax and income retained through the business rates retention scheme. If these items, collectively known as self-financed expenditure, are included then local government spending is expected to fall by 6.7% in real terms over the spending review period. Consequently local government will spend around £3 billion a year less in real terms by 2019/20.

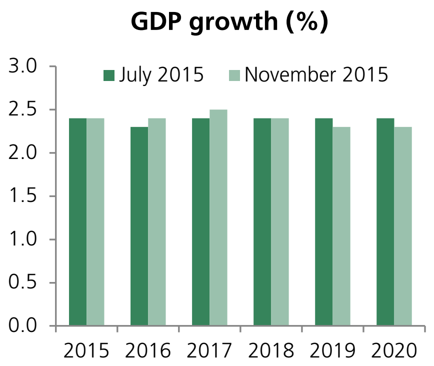


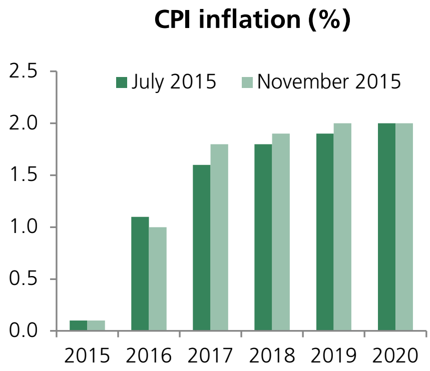
3 Welsh Assembly Research Service, Barnett reform: Future funding for Wales
4 National Assembly for Wales, Explore the Assembly: St David's Day announcement, 2015

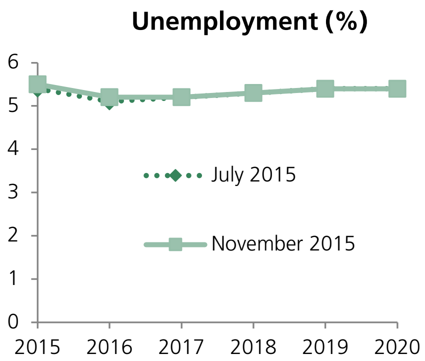
The Spending Review included some announcements which may be significant for local government:

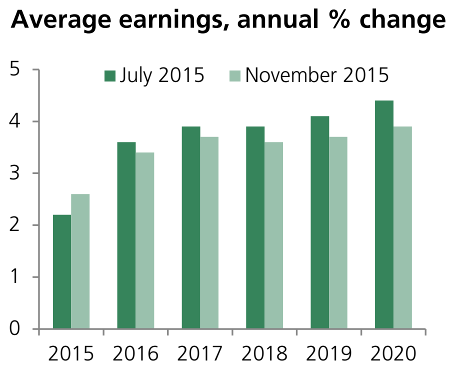
- The Government will consult on changes to the local government finance system to pave the way for implementing 100% business rates retention (as opposed to the current system of 50%). The Government aims to have the new system in place before the end of the Parliament, and as part of the reform the main government grant to local government will be phased out and new responsibilities passed to local authorities.
- Local authorities responsible for social care will be allowed to introduce a social care precept on their council tax. The precept will work by giving local authorities the flexibility to raise council tax in their area by up to 2% above the existing threshold for spend on adult social care. This is intended to raise £2 billion a year by 2019/20.

3. OBR forecasts for the economy









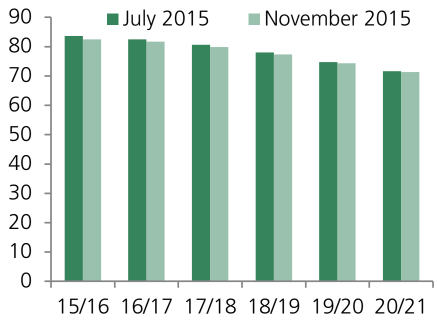
- In its November 2015 forecasts the Office for Budget Responsibility (OBR) expects slightly higher GDP growth in 2016 and 2017, and lower growth in 2019 and 2020, than in its July 2015 forecast.
- The OBR now expects slower average earnings growth in the years after 2015. Lower productivity and higher employer costs from both auto-enrolment and the apprenticeship levy are expected to slow wage growth.

OBR forecasts: economy

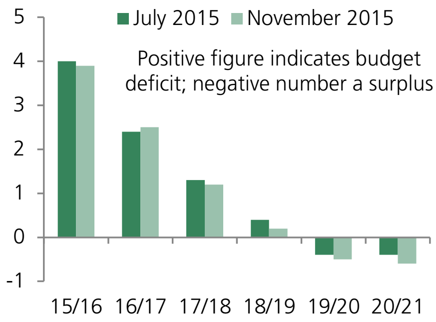
	2015	2016	2017	2018	2019	2020
GDP growth (%)						
OBR, July 2015	2.4	2.3	2.4	2.4	2.4	2.4
OBR, November 2015	2.4	2.4	2.5	2.4	2.3	2.3
CPI inflation (%)						
OBR, July 2015	0.1	1.1	1.6	1.8	1.9	2.0
OBR, November 2015	0.1	1.0	1.8	1.9	2.0	2.0
Employment, millions						
OBR, July 2015	31.2	31.5	31.6	31.7	31.9	32.1
OBR, November 2015	31.1	31.5	31.7	31.9	32.0	32.2
ILO unemployment rate, %						
OBR, July 2015	5.4	5.1	5.2	5.3	5.4	5.4
OBR, November 2015	5.5	5.2	5.2	5.3	5.4	5.4
Claimant count, millions						
OBR, July 2015	0.78	0.73	0.75	0.77	0.78	0.79
OBR, November 2015	0.80	0.77	0.82	0.86	0.87	0.88
Average earnings, % change on previous year						
OBR, July 2015	2.2	3.6	3.9	3.9	4.1	4.4
OBR, November 2015	2.6	3.4	3.7	3.6	3.7	3.9

4. OBR forecasts for the public finances

Public sector net debt, % of GDP



Public sector net borrowing, % of GDP



- In it November 2015 forecasts, the OBR judges that the Government is on course to meet its fiscal targets: borrowing is expected to reach a surplus in 2019/20, and the debt-to-GDP ratio is expected to fall in each year to 2019/20.
- The OBR now expects lower borrowing in most years. Larger surpluses are now forecast for 2019/20 and 2020/21.
- The debt-to-GDP ratio is now forecast to be lower in all years of the forecast period. However, the stock of debt is forecast to be higher in all years. A lower debt-to-GDP ratio is achieved despite a higher stock of debt as the OBR has increased its forecast for GDP.
- The OBR's July 2015 forecasts for the public finances have been restated following the ONS's decision to reclassify housing associations to the public sector.[5]

OBR forecasts: public finances

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Net borrowing, £ billion						
OBR, July 2015	74.1	46.7	26.5	8.2	-8.5	-10.0
OBR, November 2015	73.5	49.9	24.8	4.6	-10.1	-14.7
Net borrowing, % of GDP						
OBR, July 2015	4.0	2.4	1.3	0.4	-0.4	-0.4
OBR, November 2015	3.9	2.5	1.2	0.2	-0.5	-0.6
Net debt, £ trillion						
OBR, July 2015	1.60	1.64	1.67	1.69	1.69	1.70
OBR, November 2015	1.60	1.65	1.69	1.70	1.71	1.72
Net debt, % of GDP						
OBR, July 2015	83.6	82.5	80.6	78.0	74.7	71.6
OBR, November 2015	82.5	81.7	79.9	77.3	74.3	71.3

5 Reclassification is discussed inAnnex B of the OBR's Economic and Fiscal Outlook – November 2015

5. A £27 billion windfall for the Chancellor?

The media have made much of the Chancellor receiving a £27 billion 'windfall' to the public finances, allowing him to increase capital spending, soften decreases in public service spending and reverse tax credit cuts.[6] Here we briefly discuss where this 'windfall' fell from.

What is the £27 billion?

In its latest set of forecasts the OBR expects lower government borrowing than it had thought likely in July 2015. It expects lower borrowing in each of the next five years – the £27 billion is the sum of each year's lower borrowing. Paul Johnson of the Institute for Fiscal Studies – a think tank – said that the figure "is a silly number" as it is an accumulation over time, with the actual number in individual years being much less. The OBR's forecast lowers borrowing by a maximum of £8 billion in 2018/19, or roughly £5 billion on average over the five years.

The reduced borrowing forecasts are solely down to revisions in the underlying forecast – they are not a result of policy announcements made by the Chancellor in his statement.

What is going on? What has the OBR changed?

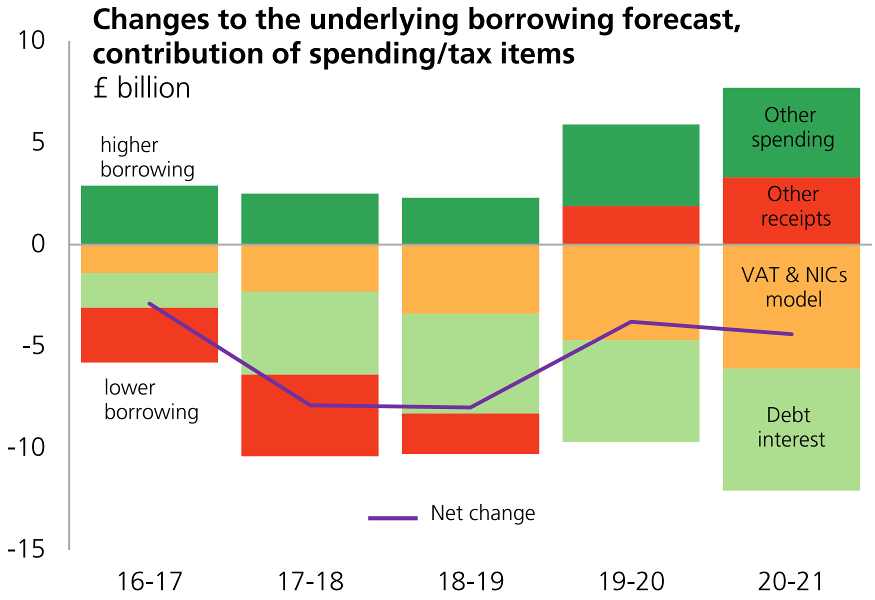
The OBR revises its underlying forecasts for each fiscal event. On this occasion changes made to the OBR's models, and changes in the data going into them, increased the forecast for tax receipts in the next five years and lowered spending forecasts in most of these years. The upshot being that the Government was forecast to borrow less in all years.

Practically all of the individual spending areas and taxes have seen some revision to their underlying forecast, some helping to lower borrowing, some helping to increase it; however, two areas particularly explain the improved borrowing position.

- Following an evaluation of its forecasts, the OBR has changed the way it estimates VAT receipts and National Insurance Contributions. These changes have added an average of £3.1 billion each year to the tax receipts forecast.
- The OBR now forecasts the Government to spend around £4 billion a year less on debt interest. Its changed view is broadly a result of expecting two things to happen further into the future. Firstly the OBR think that the Bank of England (BoE) will start raising interest rates later than previously expected, with

6 For instance see: J Kirkup, 'Autumn Statement: A £27 billion windfall, but George Osborne will still borrow more', *The Telegraph*, 25 November 2015; K Allen, 'OBR admits uncertainty over £27bn windfall behind tax credit U-turn', *The Guardian*, 25 November 2015

the result that debt interest payments will remain lower for longer. Secondly, based on new guidance from BoE the OBR expect the BoE to begin offloading the Government debt it bought as part of quantitative easing[7] later. As the BoE hold this debt it is classified as being within the public sector. This means that debt interest payments are made from one public sector body (the Government) to another (the BoE) thus, for the purpose of calculating the public finances the net payment is zero.[8]



It is worth re-iterating that the lower borrowing is a result of changes to the underlying forecast, not changes resulting from the Chancellor's announcements in this statement. The forecasts shown in section 4 are after the Chancellor's announcements have been taken into account.

7 The programme which aimed to boost the economy after the recession
8 There is still some cost of holding this debt in the public sector - the cost of the loan which the BoE has given to quantitative easing. This loan is charged the Bank Rate – the BoE's main interest rate.

6. Benefits and tax credits

6.1 Changes to tax credits reversed…

In the Autumn Statement 2015, the Chancellor announced a reversal of planned changes to tax credits previously announced in the Summer Budget 2015. Specifically, the Chancellor reversed the changes which would have reduced the income thresholds over which tax credit awards are tapered away and increased the rate at which they are tapered. This reversal will cost the Exchequer £3.4 billion in 2016/17, falling to £0.5 billion in 2020/21.[9]

Changes to tax credits and Universal Credit announced in the Summer Budget 2015 and still scheduled to take affect include:

- Limiting support provided through tax credits, Universal Credit and Housing Benefit to two children for new claims and births from April 2017
- Removal of the family element of Child Tax Credits and the equivalent components of Universal Credit and Housing Benefit for new claims from April 2016 or 2017
- Reduction of Universal Credit work allowances. Universal Credit is withdrawn at a constant rate of 65 pence for each pound of net earnings above a family's monthly earnings disregard, or "work allowance". See section 4 of the Library briefing paper 2016 Benefits Uprating for further explanation.

The Autumn Statement 2015 also announced plans to limit the Housing Benefit payments of social sector tenants to Local Housing Allowance rates. This is discussed in section 9.2.

Benefit spending excluding state pensions in 2020/21 is, according to the Institute for Fiscal Studies, forecast to be at its lowest as a share of national income for 30 years.[10]

6.2 …£12 billion of welfare cuts retained

The Autumn Statement nonetheless reaffirmed the Chancellor's intention to save £12 billion a year by 2019/20 in welfare spending.[11] The Chancellor expects to still meet his £12 billion target despite reversing changes tax credits as:

- The Government continues to expect all "legacy" benefit claimants (that is, those currently receiving tax credits, Housing Benefit, JSA, etc.) to move onto Universal Credit by 2021.[12] As a result, changes to *tax credits specifically* were not expected to contribute significant savings to the Exchequer in 2019/20.
- Losses made by the Exchequer as a result of reversing planned changes to tax credits have, in-part, been offset by further savings

[9] Table 3.1, "Policy Decisions", Autumn Statement 2015
[10] Andrew Hood; Benefit and tax credit changes (IFS briefings), 26 November 2015
[11] Autumn Statement 2015; page 3
[12] Spending Review and Autumn Statement 2015: policy costings; page 33

from Housing Benefit, Universal Credit and other items under the welfare cap

The Conservative Party 2015 election manifesto said that, by 2017/18, the Party would "find £12 billion from welfare savings". The Summer Budget 2015 announced measures expected to save £12 billion, but not until 2019/20. Section 4.1 of the Library note [Background to the 2015 Spending Review and Autumn Statement] shows these savings in full.

The chart below shows best available estimates for expected 'welfare' savings 2016/17 to 2020/21, taking into account measures announced in the Summer Budget 2015 and the Autumn Statement 2015.

These estimates are based on a series of assumptions, several of which are now known to be incorrect.

The Summer Budget 2015 announced savings of £4.4 billion in 2016/17 from changes to work allowances within Universal Credit, to the income thresholds within tax credits and to the tax credit taper rate. The Chancellor reversed the latter two of these changes in the Autumn Statement 2015, costing the Exchequer £3.4 billion in 2016/17.

This suggests that around £1 billion of welfare savings would be made due to changes to Universal Credit work allowances in 2016/17. This is not correct. Pages 138-139 of the OBR's November 2015 Economic and fiscal outlook explains that original savings estimates for these measures were over-estimated as a result of interactions between benefits (such as between tax credits and Housing Benefit) that were not previously estimated correctly.[13]

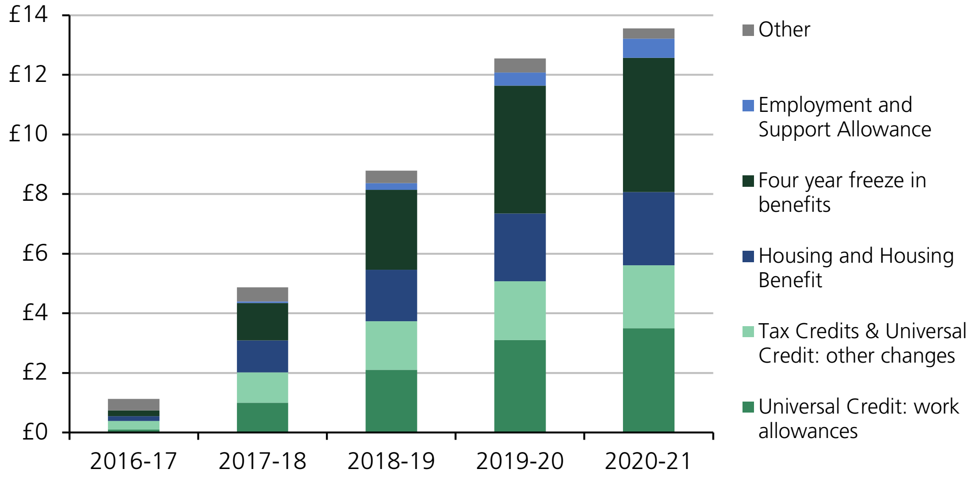
In the chart below, estimated savings from changes to Universal Credit work allowances are instead based upon re-costed scorecard measures from line (b) of Table B, page 139 of the OBR's Economic and fiscal outlook: November 2015.

The chart shows savings made from measures described as "welfare measures" in the Summer Budget 2015 and measures described as "welfare cap policy decisions" in the Autumn Statement 2015.

[13] Office for Budget Responsibility: Economic and fiscal outlook November 2015; page 138

Savings from welfare measures announced in the Summer Budget 2015 and Autumn Statement 2015

£ billions, nominal terms



Notes

Savings shown in the above charts are based on Treasury estimates announced in the Summer Budget 2015 and Autumn Statement 2015. These estimates are based on assumptions that are now known to be incorrect. Those shown above are currently the best available estimates. The OBR is expected to publish further detail shortly.

References below refer to table 2.1, "Policy decisions" in the Summer Budget 2015 and table 3.1, "Policy decisions", in the Autumn Statement 2015

"Other" includes:

- (SB, 52) Fraud, error and debt: tax credit changes
- (AS, 22) Fraud, error and debt: DWP & HMRC changes
- (AS, 30) Pension Credit Savings Credit: freeze
- (AS, 31) Social care reforms: update implementation date
- (AS, 28) Childcare: revised eligibility criteria

"Four year freeze in benefits" includes:

- (SB, 37) Uprating: freeze in working-age benefits, tax credits and Local Housing Allowances for 4 years from 2016-17
- (SB, 38) Benefit cap: reduce to £20,000, and £23,000 in London

"Housing and Houng Benefit" includes:

- (SB, 45) End automatic entitlement for out-of-work 18-21 year olds
- (SB, 46) Reduce social sector rents by 1% each year for four years
- (SB, 47) Pay to stay: higher income social housing tenants to pay market rents
- (SB, 49) Support for Mortgage Interest: change from payment to loan
- (AS, 8) Temporary accomodation: impact of new funding mechanism
- (AS, 26) Housing Benefit: limit social sector rates to the equivalent private sector rate
- (AS, 27) Housing Benefit and Pension Credit: limit temporary absence

"Tax Credits & Universal Credit: other changes" includes:

- (SB, 39) Limit child element to 2 children for new births in tax credits and new claims in UC. Equivalent change in Housing Benefit
- (SB, 40) Remove family element in tax credits and UC, and the family premium in Housing Benefit, for new claims
- (SB, 43) Reduce income disregard in tax credits
- (AS, 24) Universal Credit: updated delivery schedule
- (AS, 25) Universal Credit: uprate Minimum Income Floor with NLW

"Universal Credit: work allowances": savings are based on line (b) of Table B, page 139 of the OBR's Economic and fiscal outlook: November 2015

7. Welfare cap

Budget 2014 introduced a statutory cap of certain kinds of welfare spending, including tax credits, disability benefits and housing benefits. The cap excludes pensioner benefits, jobseekers allowance and Universal Credit.[14]

In the *Autumn Statement/Spending Review 2015*, the OBR judged that relevant welfare spending was set to breach the cap in three of the next five years. This is a result of reversing proposed changes to tax credits that were announced in the Summer Budget 2015.

Note that the welfare cap includes a 'forecast margin' which allows for breaches of 2% when changes to forecasts mean relevant welfare spending exceeds the cap.

OBR assessment of welfare spending in cap at Autumn Statement/Spending Review 2015

	2016/17	2017/18	2018/19	2019/20	2020/21
Welfare cap set in Summer Budget 2015	115.2	114.6	114.0	113.5	114.9
Plus 2% forecast margin	117.5	116.9	116.3	115.8	117.2
Forecast welfare spending in cap	119.2	117.7	115.9	115.3	117.1
Cap breached or observed?	*Breached*	*Breached*	*Breached*	*Observed*	*Observed*

Source: OBR, Economic and Fiscal Outlook November 2015, Table 5.3

The 2% margin can only be used for forecast-driven changes to welfare spending

The OBR assessment of performance against the cap by year is set out below:[15]

- 2016/17: Relevant welfare spending will be £4.0 billion above the cap level and £1.7 billion above the forecast margin, so the cap is set to be **breached**.
- 2017/18: Relevant welfare spending will be £3.1 billion above the cap level and £0.8 billion above the forecast margin, so the cap is set to be **breached**.
- 2018/19: Relevant welfare spending will be £1.9 billion above the cap level but £0.4 billion below the forecast margin. However, the OBR judges that the spending above the cap is due to policy decisions and is not driven by forecast changes, and therefore, the cap is set to be **breached**.
- 2019/20: Relevant welfare spending will be £1.8 billion above the cap but £0.5 billion below the forecast margin. The OBR judges that the cap is set to be **observed** because policy changes actually reduce relevant spending in that year. The technical breach of the cap is the result of classification changes.
- 2020/21: Relevant welfare spending will be £2.1 billion above the cap level but £0.2 billion below the forecast margin. The OBR judges that the cap will be **observed** because policy changes

[14] HM Treasury, Budget 2014, 19 March 2014, para 1.76, p26
[15] OBR, *Economic and Fiscal Outlook*, November 2015, pp 192,193

> reduce relevant welfare spending, and technical breech is again due to classification changes.

Since the cap has been breached, the Government must debate this matter in the House of Commons as set out in the Charter for Budget Responsibility:[16]

> If the welfare cap is found to be breached in one or more of the years in which it applies, there will be a debate on a votable motion led by the Department for Work and Pensions, normally within 28 sitting days, giving an assessment of the reasons for the breach. The Department for Work and Pensions will:
>
> - propose government policy measures which will reduce welfare spending to within the level of the cap;
> - seek approval for the level of the welfare cap and/or margin to be increased, along with an explanation of why this is considered to be justified; or
> - explain why a breach of the welfare cap is considered justified.

[16] HM Treasury, *Charter for Budget Responsibility*, December 2014, para 3.30, p10

8. Apprenticeship levy

In the Summer Budget 2015, the Government announced that it would create a new business tax for large employers, the Apprenticeship levy, to fund its flagship '3 million new apprenticeships' policy. Details of the levy were announced in the Spending Review and Autumn Statement 2015.

The levy

The levy will be introduced in April 2017 and will be set at a rate of 0.5% of an employer's gross paybill.[17] Each employer will receive a £15,000 allowance, meaning that only those with paybills of over £3 million will pay the levy. Employers will pay the levy on the portion of their paybill above the £3 million threshold. The Government estimates that 2% of UK employers will be eligible for a payment.[18]

By 2019/20 the Government expects the levy to bring in £3 billion. Spending on apprenticeships is expected to reach £2.5 billion in England in 2019/20. Apprenticeship policy is devolved, so the devolved administrations will receive additional funding due to them through the Barnett formula.[19]

Receipts from the levy will be ring-fenced – meaning they will be protected within departmental budgets to be spent on apprenticeships only.[20]

Apprenticeships

The levy will be used to fund 3 million apprenticeships by the end of this Parliament. All employers, regardless of whether they pay the levy or not, will be able to access government funding for apprenticeships. Those who pay the levy will receive more in funding than they contribute.[21]

The Government estimates that by 2019/20 government spending on apprenticeships, including the yearly income from the levy, will be double the level of spending in 2010/11 in cash terms.[22] In 2014/15 the Department for Business, Innovation and Skills' total Adult Skills Budget was £2.3 million, £776,573 of which was allocated to adult

17 HM Government, *Spending Review and Autumn Statement 2015: policy costings*, p.9
18 *Spending Review 2015*, section 1.173, p.45
19 HM Government, *Spending Review and Autumn Statement 2015*, Section 1.33, p.15
20 *Spending Review 2015*, section 1.173, p.46
21 Digital accounts are online voucher accounts where the Government intends for all employers to be able to see their levy contribution and the digital vouchers that they can use to purchase apprenticeship training. Department for Business, Innovation and Skills, 'Apprenticeship Levy, Employer owned apprenticeship training', August 2015, p.13.
22 *Spending Review 2015*, section 2.71, p.92

apprenticeships. In the same year, the Department for Education spent £703,429 on apprenticeships for 16-18 year-olds.[23]

The Office for Budget Responsibility expect that the levy will at first have an adverse effect on the economy by reducing nominal wages and profit margins, with much of the effect falling on wages by the end of the forecast period. The Government are to temporarily offset these costs by postponing planned increases in auto-enrolment pension contributions.[24]

23 Skills Funding Agency, *Annual Reports and Accounts 2014 to 2015*, pp.65-67
24 Spending Review: policy costings, section A.32, p.219

9. Housing and housing benefit

9.1 Increasing home ownership

The Spending Review set out plans to double the housing budget from 2018/19 (to around £2 billion) and contains a Five Point Plan to deliver 400,000 affordable housing starts by 2020/21 to include:

- 200,000 Starter Homes[25] with a £2.3 billion fund to support the delivery of up to 60,000 of these homes; the remaining Starter Homes will be delivered through changes to the planning system.
- 135,000 Help to Buy: Shared Ownership homes.
- 10,000 Rent to Buy homes where a tenant can save for a deposit while renting a home.
- 8,000 or more specialist homes for older people and those with disabilities.
- 50,000 additional homes "from existing commitments."[26]

The acceleration in housing supply is to be supported by a range of other measures, including further planning reforms and the release of public sector land with capacity for 160,000 homes.

As with measures in the *Housing and Planning Bill* currently before Parliament, the focus of the Spending Review is on increasing opportunities for home ownership.

The National Housing Federation (NHF) welcomed the increased investment in housing and the opportunity to build on the housing association sector's "success story" of shared ownership.[27] The Chartered Institute of Housing (CIH) also welcomed the "significant investment in much-needed new homes" but questioned the focus on home ownership as opposed to building homes across a range of tenures "which are truly affordable to people on all incomes, including those that are unable to buy."[28]

The Office for Budgetary Responsibility's (OBR) analysis of the increased spending identifies a move away from funding social rented housing:

> …this Spending Review includes an increase in central government grants over the period to 2020-21. Grants are now back-loaded, with cuts in 2016-17 and 2017-18 offset by increases in subsequent years – particularly 2020-21. The composition has also changed, with: fewer grants earmarked for the social rented sector; new grants for what the Government calls 'build-to-rent' (which allows HAs to charge higher rents, with the expectation that dwellings will be sold at a later date beyond our current forecast horizon); and a bigger expansion of grants for

[25] Homes sold at a 20% discount compared to the market value to first time buyers under 40 years of age.
[26] Spending Review and Autumn Statement 2015, Cm 9162, November 2015, para 1.146
[27] NHF Response to the Spending Review 2015, [accessed on 27 November 2015]
[28] CIH Briefing on the Spending Review and Autumn Statement [CIH members only]

> dwellings to be sold via shared-ownership, with fewer restrictions than at present.[29]

The OBR expects associations to build 185,000 homes by 2020/21. This is 46,000 more than forecast after the Summer Budget announcement of a 1% cut in social and affordable rents in each year for four years from April 2016. However, it is still 34,000 lower than the 219,000 new homes associations were forecast to build before the Summer Budget:

> By 2020-21 the number of new builds a year rises above our July pre-measures baseline, at which point it is roughly in line with our estimate for the number in 2014-15.[30]

9.2 Housing Benefit

The Chancellor announced that Housing Benefit for tenants in social housing would be capped at the Local Housing Allowance rate (set at the lowest 30th percentile of market rents within a Broad Market Rental Area). The measure will apply to tenancies entered into after 1 April 2016 with Housing Benefit entitlement changing from 1 April 2018 onwards. The Shared Room Rate, under which single people under the age of 35 are only eligible for Housing Benefit to cover the cost of a room in a shared house, will also be extended to the social rented sector.

Social landlords are concerned about the impact of this measure for rent arrears and the implications for young single people trying to find an affordable home. The NHF has questioned whether there will be an exemption for specified accommodation (e.g. sheltered and supported housing).[31]

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29 OBR Economic and Fiscal Outlook, November 2015, p224
30 Ibid., p232
31 NHF Response to the Spending Review 2015, [accessed on 27 November 2015]

Appendix: Departmental budgets

Resource DEL, Capital DEL and Total DEL, Nominal and Real (2015/16) terms

See following pages

Resource DEL
Current prices

		Spending review period				Change 2015/16 to 2019/20	
	2015/16	2016/17	2017/18	2018/19	2019/20	£ billions	% change
Education	53.6	54.4	55.5	56.4	57.1	3.5	7%
NHS (Health)	111.6	115.6	118.7	121.3	124.1	12.5	11%
Transport	2.6	2.0	2.1	2.2	1.8	-0.8	-31%
CLG Communities	1.5	1.4	1.4	1.3	1.2	-0.3	-20%
CLG Local Government	11.5	9.6	7.4	6.1	5.4	-6.1	-53%
Business, Innovation and Skills	12.9	13.4	12.3	11.7	11.5	-1.4	-11%
Home Office	10.3	10.7	10.6	10.6	10.6	0.3	3%
Justice	6.2	6.5	6.3	5.8	5.6	-0.6	-10%
Law Officers' Departments	0.5	0.5	0.5	0.5	0.5	0.0	0%
Defence	27.2	27.8	28.5	29.2	30.0	2.8	10%
Foreign and Commonwealth Office	1.0	1.0	1.0	1.0	1.0	0.0	0%
International Development	8.5	9.1	9.3	10.7	11.0	2.5	29%
Energy and Climate Change	0.9	0.9	1.0	1.0	0.9	0.0	0%
Environment, Food and Rural Affairs	1.5	1.7	1.6	1.5	1.4	-0.1	-7%
Culture, Media and Sport	1.1	1.2	1.2	1.2	1.1	0.0	0%
Work and Pensions	5.8	6.1	6.3	5.9	5.4	-0.4	-7%
Scotland	25.9	26.1	26.3	26.3	26.5	0.6	2%
Wales	12.9	13.0	13.1	13.2	13.3	0.4	3%
Northern Ireland	9.7	9.8	9.9	9.9	9.9	0.2	2%
HM Treasury	0.2	0.2	0.2	0.1	0.1	-0.1	-50%
Cabinet Office	0.2	0.3	0.3	0.3	0.2	0.0	0%
Small and Independent Bodies	1.5	1.5	1.5	1.5	1.5	0.0	0%
National Citizens Service	0.1	0.2	0.2	0.3	0.4	0.3	300%
HM Revenue and Customs	3.3	3.5	3.4	3.1	2.9	-0.4	-12%
Single Intelligence Account	1.8	1.8	2.0	2.1	2.2	0.4	22%
Reserve	3.5	3.5	3.4	3.5	4.1	0.6	17%

Source: HM Treasury, Spending and Review and Autumn Statement 2015, Table 2.1

Capital DEL
Current prices

		Spending review period				Change 2015/16 to 2019/20	
	2015/16	2016/17	2017/18	2018/19	2019/20	£ billions	% change
Education	4.6	5.2	4.6	4.4	4.4	-0.2	-4%
NHS (Health)	4.8	4.8	4.8	4.8	4.8	0.0	0%
Transport	6.1	6.3	7.6	8.9	11.4	5.3	87%
CLG Communities	3.1	4.0	3.7	4.0	3.6	0.5	16%
CLG Local Government	0.0	0.0	0.0	0.0	0.0	-	-
Business, Innovation and Skills	3.8	3.1	2.2	1.7	1.7	-2.1	-55%
Home Office	0.4	0.5	0.5	0.4	0.4	0.0	0%
Justice	0.4	0.7	0.7	0.7	0.4	0.0	0%
Law Officers' Departments	0.0	0.0	0.0	0.0	0.0	0.0	-
Defence	7.1	7.3	7.5	7.8	8.1	1.0	14%
Foreign and Commonwealth Office	0.1	0.1	0.1	0.1	0.1	0.0	0%
International Development	2.6	2.7	3.2	2.8	3.1	0.5	19%
Energy and Climate Change	2.3	2.4	2.5	2.4	2.3	0.0	0%
Environment, Food and Rural Affairs	0.5	0.6	0.6	0.6	0.5	0.0	0%
Culture, Media and Sport	0.4	0.4	0.4	0.4	0.3	-0.1	-25%
Work and Pensions	0.2	0.3	0.4	0.3	0.2	0.0	0%
Scotland	3.0	3.2	3.2	3.2	3.4	0.4	13%
Wales	1.5	1.5	1.5	1.6	1.6	0.1	7%
Northern Ireland	1.1	1.1	1.1	1.2	1.2	0.1	9%
HM Treasury	0.0	0.1	0.1	0.1	0.1	0.1	-
Cabinet Office	0.0	0.0	0.0	0.0	0.0	0.0	-
Small and Independent Bodies	0.1	0.1	0.1	0.1	0.1	0.0	0%
National Citizens Service	0.0	0.0	0.0	0.0	0.0	0.0	0%
HM Revenue and Customs	0.1	0.2	0.2	0.2	0.2	0.0	0%
Single Intelligence Account	0.4	0.4	0.4	0.4	0.5	0.0	0%
Reserve	1.0	1.1	1.3	1.3	1.2	0.2	20%

Source: HM Treasury, Spending and Review and Autumn Statement 2015, Table 2.2

Total DEL
Current prices

		Spending review period				Change 2015/16 to 2019/20	
	2015/16	2016/17	2017/18	2018/19	2019/20	£ billions	% change
Education	58.2	59.6	60.1	60.8	61.5	3.3	6%
NHS (Health)	116.4	120.4	123.5	126.1	128.9	12.5	11%
Transport	8.7	8.3	9.7	11.1	13.2	4.5	52%
CLG Communities	4.6	5.4	5.1	5.3	4.8	0.2	4%
CLG Local Government	11.5	9.6	7.4	6.1	5.4	-6.1	-53%
Business, Innovation and Skills	16.7	16.5	14.5	13.4	13.2	-3.5	-21%
Home Office	10.7	11.2	11.1	11.0	11.0	0.3	3%
Justice	6.6	7.2	7.0	6.5	6.0	-0.6	-9%
Law Officers' Departments	0.5	0.5	0.5	0.5	0.5	0.0	0%
Defence	34.3	35.1	36.0	37.0	38.1	3.8	11%
Foreign and Commonwealth Office	1.1	1.1	1.1	1.1	1.1	0.0	0%
International Development	11.1	11.8	12.5	13.5	14.1	3.0	27%
Energy and Climate Change	3.2	3.3	3.5	3.4	3.2	0.0	0%
Environment, Food and Rural Affairs	2.0	2.3	2.2	2.1	1.9	-0.1	-5%
Culture, Media and Sport	1.5	1.6	1.6	1.6	1.4	-0.1	-7%
Work and Pensions	6.0	6.4	6.7	6.2	5.6	-0.4	-7%
Scotland	28.9	29.3	29.5	29.5	29.9	1.0	3%
Wales	14.4	14.5	14.6	14.8	14.9	0.5	3%
Northern Ireland	10.8	10.9	11.0	11.1	11.1	0.3	3%
HM Treasury	0.2	0.3	0.3	0.2	0.2	0.0	0%
Cabinet Office	0.2	0.3	0.3	0.3	0.2	0.0	0%
Small and Independent Bodies	1.6	1.6	1.6	1.6	1.6	0.0	0%
National Citizens Service	0.1	0.2	0.2	0.3	0.4	0.0	0%
HM Revenue and Customs	3.4	3.7	3.6	3.3	3.1	0.0	0%
Single Intelligence Account	2.2	2.2	2.4	2.5	2.7	0.0	0%
Reserve	4.5	4.6	4.7	4.8	5.3	0.8	18%

Source: HM Treasury, Spending and Review and Autumn Statement 2015, Table 2.1 and 2.2

Resource DEL
Real terms, 2015/16 prices

		Spending review period				Change 2015/16 to 2019/20	
	2015/16	2016/17	2017/18	2018/19	2019/20	£ billions	% change
Education	53.6	53.5	53.6	53.5	53.0	-0.6	-1%
NHS (Health)	111.6	113.7	114.7	115.0	115.2	3.7	3%
Transport	2.6	2.0	2.0	2.1	1.7	-1.0	-37%
CLG Communities	1.5	1.4	1.4	1.2	1.1	-0.4	-29%
CLG Local Government	11.5	9.4	7.1	5.8	5.0	-6.4	-56%
Business, Innovation and Skills	12.9	13.2	11.9	11.1	10.7	-2.2	-17%
Home Office	10.3	10.5	10.2	10.0	9.8	-0.5	-5%
Justice	6.2	6.4	6.1	5.5	5.2	-0.9	-15%
Law Officers' Departments	0.5	0.5	0.5	0.5	0.5	0.0	-2%
Defence	27.2	27.3	27.5	27.7	27.9	0.6	2%
Foreign and Commonwealth Office	1.0	1.0	1.0	0.9	0.9	0.0	0%
International Development	8.5	8.9	9.0	10.1	10.2	1.8	21%
Energy and Climate Change	0.9	0.9	1.0	0.9	0.8	-0.1	-16%
Environment, Food and Rural Affairs	1.5	1.7	1.5	1.4	1.3	-0.2	-15%
Culture, Media and Sport	1.1	1.2	1.2	1.1	1.0	-0.1	-5%
Work and Pensions	5.8	6.0	6.1	5.6	5.0	-0.8	-14%
Scotland	25.9	25.7	25.4	24.9	24.6	-1.3	-5%
Wales	12.9	12.8	12.7	12.5	12.3	-0.6	-5%
Northern Ireland	9.7	9.6	9.6	9.4	9.2	-0.5	-5%
HM Treasury	0.2	0.2	0.2	0.1	0.1	0.0	-24%
Cabinet Office	0.2	0.3	0.3	0.3	0.2	0.0	4%
Small and Independent Bodies	1.5	1.5	1.4	1.4	1.4	-0.1	-7%
National Citizens Service	0.1	0.2	0.2	0.3	0.4	0.0	0%
HM Revenue and Customs	3.3	3.4	3.3	2.9	2.7	-0.6	-18%
Single Intelligence Account	1.8	1.8	1.9	2.0	2.0	0.3	17%
Reserve	3.5	3.4	3.3	3.3	3.8	0.0	0%

Source: HM Treasury, Spending and Review and Autumn Statement 2015, Table 2.1
GDP Deflator, House of Commons Library calculations

Capital DEL
Real terms, 2015/16 prices

		Spending review period				Change 2015/16 to 2019/20	
	2015/16	2016/17	2017/18	2018/19	2019/20	£ billions	% change
Education	4.6	5.1	4.4	4.2	4.1	-0.5	-11%
NHS (Health)	4.8	4.7	4.6	4.5	4.5	-0.3	-7%
Transport	6.1	6.2	7.3	8.4	10.6	4.5	74%
CLG Communities	3.1	3.9	3.6	3.8	3.3	0.2	8%
CLG Local Government	0.0	0.0	0.0	0.0	0.0	0.0	0%
Business, Innovation and Skills	3.8	3.0	2.1	1.6	1.6	-2.2	-58%
Home Office	0.4	0.5	0.5	0.4	0.4	0.0	-7%
Justice	0.4	0.7	0.7	0.7	0.4	0.0	-7%
Law Officers' Departments	0.0	0.0	0.0	0.0	0.0	0.0	0%
Defence	7.1	7.2	7.2	7.4	7.5	0.4	6%
Foreign and Commonwealth Office	0.1	0.1	0.1	0.1	0.1	0.0	-7%
International Development	2.6	2.7	3.1	2.7	2.9	0.3	11%
Energy and Climate Change	2.3	2.4	2.4	2.3	2.1	-0.2	-7%
Environment, Food and Rural Affairs	0.5	0.6	0.6	0.6	0.5	0.0	-7%
Culture, Media and Sport	0.4	0.4	0.4	0.4	0.3	-0.1	-30%
Work and Pensions	0.2	0.3	0.4	0.3	0.2	0.0	-7%
Scotland	3.0	3.1	3.1	3.0	3.2	0.2	5%
Wales	1.5	1.5	1.4	1.5	1.5	0.0	-1%
Northern Ireland	1.1	1.1	1.1	1.1	1.1	0.0	1%
HM Treasury	0.0	0.1	0.1	0.1	0.1	0.1	0%
Cabinet Office	0.0	0.0	0.0	0.0	0.0	0.0	0%
Small and Independent Bodies	0.1	0.1	0.1	0.1	0.1	0.0	-7%
National Citizens Service	0.0	0.0	0.0	0.0	0.0	0.0	0%
HM Revenue and Customs	0.1	0.2	0.2	0.2	0.2	0.1	0%
Single Intelligence Account	0.4	0.4	0.4	0.4	0.5	0.1	16%
Reserve	1.0	1.1	1.3	1.2	1.1	0.1	11%

Source: HM Treasury, Spending and Review and Autumn Statement 2015, Table 2.2
GDP Deflator, House of Commons Library calculations

Total DEL
Real terms, 2015/16 prices

		Spending review period				Change 2015/16 to 2019/20	
	2015/16	2016/17	2017/18	2018/19	2019/20	£ billions	% change
Education	58.2	58.6	58.1	57.6	57.1	-1.1	-2%
NHS (Health)	116.4	118.4	119.3	119.5	119.7	3.3	3%
Transport	8.7	8.2	9.4	10.5	12.3	3.5	40%
CLG Communities	4.6	5.3	4.9	5.0	4.5	-0.2	-4%
CLG Local Government	11.5	9.4	7.1	5.8	5.0	-6.4	-56%
Business, Innovation and Skills	16.7	16.2	14.0	12.7	12.3	-4.4	-26%
Home Office	10.7	11.0	10.7	10.4	10.2	-0.5	-5%
Justice	6.6	7.1	6.8	6.2	5.6	-1.0	-15%
Law Officers' Departments	0.5	0.5	0.5	0.5	0.5	0.0	-2%
Defence	34.3	34.5	34.8	35.1	35.4	1.0	3%
Foreign and Commonwealth Office	1.1	1.1	1.1	1.0	1.0	0.0	-1%
International Development	11.1	11.6	12.1	12.8	13.1	2.1	19%
Energy and Climate Change	3.2	3.2	3.4	3.2	3.0	-0.3	-10%
Environment, Food and Rural Affairs	2.0	2.3	2.1	2.0	1.8	-0.3	-13%
Culture, Media and Sport	1.5	1.6	1.5	1.5	1.3	-0.2	-12%
Work and Pensions	6.0	6.3	6.5	5.9	5.2	-0.8	-14%
Scotland	28.9	28.8	28.5	28.0	27.8	-1.1	-4%
Wales	14.4	14.3	14.1	14.0	13.8	-0.6	-4%
Northern Ireland	10.8	10.7	10.6	10.5	10.3	-0.5	-4%
HM Treasury	0.2	0.3	0.3	0.2	0.2	0.0	22%
Cabinet Office	0.2	0.3	0.3	0.3	0.2	0.0	4%
Small and Independent Bodies	1.6	1.6	1.5	1.5	1.5	-0.1	-7%
National Citizens Service	0.1	0.2	0.2	0.3	0.4	0.0	0%
HM Revenue and Customs	3.4	3.6	3.5	3.1	2.9	-0.5	-15%
Single Intelligence Account	2.2	2.2	2.3	2.4	2.5	0.4	17%
Reserve	4.5	4.5	4.5	4.5	4.9	0.1	3%

Source: HM Treasury, Spending and Review and Autumn Statement 2015, Table 2.1 and 2.2
GDP Deflator, House of Commons Library calculations

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