



HM Government

# Spending Round 2013: policy costings

June 2013





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# 1

## Introduction

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**1.1** This document sets out the assumptions and methodologies underlying costings for Annually Managed Expenditure (AME) policy decisions announced at Spending Round 2013, where those policies have a greater than negligible impact on the public finances. This continues the practice established at June Budget 2010 and the principles outlined in *Tax policy making: a new approach*, published alongside June Budget 2010<sup>1</sup>. This publication is part of the Government's wider commitment to increased transparency.

**1.2** Chapter 2 presents detailed information on the key data and assumptions underpinning the costing of policies in Spending Round 2013. Each note sets out a description of the measure, the base, the methodology for the costing (including relevant adjustments for behavioural responses) and highlights any areas of additional uncertainty, beyond those inherent in the Office for Budget Responsibility's (OBR) forecast. All costings are presented on a National Accounts basis.

**1.3** Table 3 of the Spending Round document summarises those policy decisions with an AME impact and shows estimates of the cost or yield over the years 2013-14 to 2017-18. These costings are based on assumptions about the dates that policies will be introduced and will be updated if delivery timetables are brought forward. Costings only show the direct effects on AME and do not take account of direct effects on receipts. The effects on receipts will be taken on in the OBR's next forecast, at Autumn Statement 2013.

**1.4** Costings for AME measures do not have a direct effect on borrowing after 2014-15 as they are contained within the overall spending envelope for Total Managed Expenditure (TME).

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

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





# 2

## Policy costings

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2.1 The following policy decisions are included in this chapter:

- Supporting work: additional interviews throughout claims
- Supporting work: seven waiting days for unemployed claims
- Supporting work: three-monthly interviews
- Social rent policy
- DWP benefits: recovering debt
- Tax Credits: recovering debt
- Pension Credit: abolish Assessed Income Periods
- Museums: operational and financial freedoms
- Manchester City Deal

## Supporting work: additional interviews throughout claims

### Measure description

This measure introduces more frequent signing for some claimants of Job Seeker's Allowance (JSA) and claimants in the Universal Credit full conditionality group, and increases the requirements placed on them, at the start of their claim. This costing assumes a 2015-16 start date for the measure.

### The cost base

The cost base is estimated using Department for Work and Pension's (DWP) administrative data on JSA volumes and DWP's Policy Simulation Model for Universal Credit and is grown in line with OBR Budget 2013 forecast determinants.

### Costing

A behavioural adjustment has been made based on evidence from pilot studies that claimants subject to more rigorous signing regime<sup>1</sup> will reduce their durations on JSA or on Universal Credit.

The post-measure costing is estimated by combining reduced durations on benefit with the average daily saving made when claimants move-off JSA or Universal Credit.

### Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
AME	0	0	+95	+130	+130

### Areas of uncertainty

There is uncertainty about the amount of time people will spend off benefits as a result of this policy change.

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<sup>1</sup> Department for Work and Pensions Research Report No 382: Jobseekers Allowance intervention pilots quantitative evaluation  
<http://campaigns.dwp.gov.uk/asd/asd5/rports2005-2006/rrep382.pdf>

# Supporting work: seven waiting days for unemployed claimants

## Measure description

Introduce seven waiting days in Universal Credit for new claimants that have not had a Universal Credit claim in the past six months, where at least one person in the household is subject to conditionality. This costing assumes a 2015-16 start date for the measure.

## The cost base

The cost base is estimated using DWP's Policy Simulation Model for Universal Credit. The cost base is grown in line with OBR Budget 2013 forecast determinants.

## Costing

The costing is estimated by calculating the difference between the pre- and post-measure costings.

The costing assumes that from April 2015 new awards of Universal Credit in each month for claimants who would be subject to conditionality are reduced by the average amount of Universal Credit claimed per claimant per week.

## Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
AME	0	0	+245	+260	+260

# Employment interventions: three-monthly interviews

## Measure description

As a result of this measure new claimants to Jobseeker’s Allowance (JSA), or claimants entering the Universal Credit full conditionality group, will face an additional mandatory advisor interview every three months prior to starting the Work Programme. This costing assumes a 2015-16 start date for the measure.

## The cost base

The cost base is estimated using DWP administrative data on JSA volumes and DWP’s Policy Simulation Model for Universal Credit. The cost base is grown in line with OBR Budget 2013 forecast determinants.

## Costing

A behavioural adjustment has been made to reflect additional advisor interviews. These will reduce average durations on JSA or Universal Credit. This adjustment is based on evidence gathered by the DWP that demonstrated similar advisor interviews, tested alongside the JSA conditionality regime, resulted in reduced durations spent on JSA<sup>2</sup>.

The post-measure costing is estimated by combining reduced durations on benefit with the average daily saving made when claimants move off JSA or Universal Credit.

## Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
AME	0	0	+25	+35	+35

## Areas of uncertainty

There is uncertainty about the amount of time people will spend off benefits as a result of this policy change.

<sup>2</sup> This drew on published evaluation evidence on the introduction of Restart in 1980s that introduced a mandatory advisor interview at the 26 week point. Dolton, P. and O’ Neill, D. (1996) Unemployment Duration and the Restart Effect: Some Experimental Evidence, The Economic Journal, 106 (March) pp 387-400.

## Social rent policy

### Measure description

This measure sets the formula for annual social rent increases from 2015-16 onwards at CPI + 1 percentage point. This is a change from current policy, which has an increase formula of RPI + 0.5 percentage points.

### The cost base

The pre-measure cost base comprises households in the social rental sector in receipt of Housing Benefit (HB). This is estimated using DWP's administrative data on HB, grown in line with the OBR Budget 2013 forecast determinants.

The Department for Communities and Local Government's Housing Revenue Account (HRA) model forms the baseline for social rental income within the HRA, also grown in line with the OBR Budget 2013 forecast determinants.

### Static costing

Only the HB impacts are included in the post-measure static costing. The costing is estimated by applying the new rental increase policy to the pre-measure base. The costing is then estimated by calculating the difference between the pre- and post-measure costings.

#### Static Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
AME	0	0	+115	+215	+405

### Post-behavioural costing

The post-measure behavioural costing takes into account the response of local authorities to the new policy, within the HRA impact. There is expected to be a reduction in local authority current receipts and capital expenditure. The costings below only take into account the capital expenditure impacts so do not reflect the full PSNB impact. The change in current receipts will be taken on at the next forecast.

#### Post-behavioural Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
AME	0	0	+180	+305	+540

### Areas of uncertainty

The main uncertainty is the behavioural response from local authority landlords to changes in social rental income.

# DWP benefits: recovering debt

## Measure description

This measure reduces the stock of outstanding benefit debt owed to DWP. Debts will be recovered from those no longer receiving benefits using new powers that enable direct deductions from wages and close working with Credit Reference Agencies to identify and target debtors with the greatest ability to pay.

## The cost base

Forecast debt recoveries are estimated using a DWP model that profiles recovery activity based on referrals and debt stock.

## Costing

The costing assumes current recovery rates, based on historic DWP collection rates, are applied to a greater level of debt stock as a result of additional recovery activities.

## Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
AME	+20	+50	+55	+25	0

## Areas of uncertainty

The main uncertainty is around the assumed rate of debt recovery from new activity.

# Tax Credits: recovering debt

## Measure description

This measure enables HMRC to recover more tax credits (TC) debt by outsourcing recovery of tax credits debt to Debt Collection Agencies (DCAs) on a payment by results basis.

## The cost base

The cost base is a subset of the outstanding tax credit debt that is not currently being worked by HMRC debt collection campaigns. This is estimated from HMRC data of debt owed by tax credit recipients.

## Costing

The costing is calculated by applying the pre- and post-measure average collection rates to the cost base described above. Assumed debt recovery rates for DCAs have been guided by the results of previous HMRC programmes and the results of an external study. An adjustment is made to account for those debts that would have been recovered in the absence of intervention.

## Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
AME	+10	+70	0	0	0

## Areas of uncertainty

The main uncertainty is the collection rate likely to be achieved by DCAs.

## Pension Credit: abolish Assessed Income Periods

### Measure description

The Assessed Income Period (AIP) allows some households in receipt of Pension Credit to go for a period of at least five years without reporting changes to the value of capital or other retirement provision that would result in a reduction in the level of Pension Credit received.

This measure removes the AIP so changes in the value of capital or other retirement provision will result in a change of the Pension Credit award, where appropriate.

### The cost base

There are currently around one million Pension Credit cases with an AIP that has a fixed end date. These cases are typically reviewed once every five years.

Administrative data from the Generalised Matching Service (GMS) have been used to estimate the average change in entitlement once all changes have been processed at the end of an AIP.

### Costing

The post-measure costing is estimated on the basis that changes in circumstances, giving rise to the overpayments identified in the cost base, are evenly spread across the lifetime of a claim. The costing is then estimated by calculating the difference between the pre-measure cost base and post-measure costing.

### Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
AME	0	0	0	+15	+45

### Areas of uncertainty

A reduction of 10 per cent has been applied to the AME saving in order to account for any overpayments that may result from any error in reporting changes of circumstance.



# Museums: operational and financial freedoms

## Measure description

This measure provides national museums with operational and financial freedoms as part of a four-year pilot beginning in 2013-14. This will help museums take independent decisions on issues such as pay and procurement and access finance to unlock new projects, commercial revenues and philanthropic donations.

## Costing

Based on information provided by DCMS, we estimate that current reserves holdings by national museums are approximately £120 million. The costing assumes that greater freedom over the management and utilisation of reserves will initially lead museums to increase reserve holdings by increasing fundraising and gifts from philanthropic donors and independent trusts.

Ultimately reserves are assumed to be used to seed fund projects, make capital investments and undertake resource expenditure. The central scenario is that additional expenditure will be broadly offset by expected reserves accumulation throughout the forecast period.

## Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
AME	+20	+10	+40	+20	0

## Areas of uncertainty

The main uncertainty in the costing is how museums will respond to the freedoms by changing their reserves holdings and expenditure plans. Both the size and time profile of these effects are uncertain.

# Manchester City Deal

## Measure description

This measure relates to additional borrowing by the Greater Manchester Combined Authority, to finance local transport infrastructure projects. Government has now finalised details of Manchester’s City Deal, including an innovative ‘Earn Back’ mechanism which provides additional funding to Manchester in return for achieving additional economic growth. Now that the City Deal has been finalised, the Greater Manchester Combined Authority intends to undertake additional borrowing to fund local transport infrastructure projects.

## Costing

The costing is based on the Greater Manchester Combined Authority’s own cost estimates for its planned transport infrastructure projects, its anticipated level of additional borrowing, and its spending profile for this additional money. An allowance has been made for optimism bias.

## Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
AME	0	0	0	-155	-145

## Areas of uncertainty

The main uncertainties relate to the estimate of the project costs and the timing of the expenditure.

# A

## Office for Budget Responsibility: certification of policy costings

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**A.1** The Office for Budget Responsibility (OBR), led by the Budget Responsibility Committee (BRC), has certified that all of the costings described in this document represent a reasonable and central view given the information currently available. The OBR has not scrutinised the costings of policies within Departmental Expenditure Limits (DELs), where the total cost or yield is wholly determined by a government policy decision.

### Methodology

**A.2** The costings shown in this document take into account the direct effects of each policy on the component of taxes or spending to which the policy applies, and closely-related components. They do not take into account the possible indirect effects of these policy measures on the wider economy.

**A.3** The costings have been produced on the basis of the OBR's most recent economic forecast, which was published in the March 2013 *Economic and fiscal outlook* (EFO). The direct costings may therefore change when the OBR produces its Autumn forecast and the costings are re-estimated and re-published on that basis. The costings will also be revised in the Autumn Statement to include the impact they have on current receipts (explained further below). Our Autumn forecast for receipts and spending will also take account of any broader economic impact arising from any indirect effects of the measures.

### Scrutiny and challenge process

**A.4** The OBR was provided with detailed analysis and had full access to the information used in the costings. The assumptions, judgements and methodology used in costings were scrutinised by the BRC and OBR staff. The OBR attended a series of Star Chamber meetings with the officials responsible for producing the costings for some measures to discuss the detail of these assumptions and judgements. In the cases where the BRC felt that a different methodology or judgement was required, changes were made to the costings in line with BRC views, and a further set of discussions took place. Through this iterative process of scrutiny, the BRC was able independently to challenge the Government's costings in detail, and ensure its views were fully reflected in the Treasury's final costings.

### Uncertainty

**A.5** The OBR emphasises the uncertainty which surrounds all forecasts of the public finances. Policy costings are subject to a similar, if not greater, level of uncertainty. One reason is that costings can be highly sensitive to assumptions about the future behavioural responses of taxpayers or benefit recipients. In addition, it is often difficult to draw lessons from the impact of previous policy measures, because it is hard to separate the impact of the measures themselves from other changes in receipts and expenditure.

**A.6** In respect of the specific policy costings included in this document, the OBR identified the following areas of particular uncertainty:

- **DWP operational changes:** we have certified the costings included in the Treasury's policy decisions table for DWP operational measures in isolation. However, we note that there have been, and will continue to be, wider operational changes within DWP and across government that are likely to affect the public finances. For example, reductions in administrative spending in other areas of DWP could lead to higher net spending on benefits. We have not been presented with costings for such broader changes. Therefore, taken in isolation the costings for the specific operational changes in the Treasury's policy decision table are potentially unrepresentative of the impact of wider operational changes across government.
- **Behavioural responses of benefit recipients to changes in DWP operations and conditionality requirements:** the costings of the 'supporting work' measures are highly sensitive to the assumptions about benefit recipients' behavioural responses to the changes, where in some cases were based on limited evidence from DWP previous programmes, with the assumption that behavioural responses will be similar under the Universal Credit as with the existing social security system.
- **Interactions with Universal Credit:** the 'supporting work' measures in the Spending Round are costed on a basis consistent with the Budget 2013 Universal Credit forecast. Any changes to the Universal Credit forecast will have a knock-on impact on the estimates of the social security measures presented in this document, especially the measure to introduce waiting days in Universal Credit.
- **Social rent reforms:** No decision has been made on the mechanism (i.e. rent regulation; non-statutory guidance) through which the rent policy will apply to local authorities, and the costing of this measure is sensitive to the assumption that all social landlords will adhere to the rent increase set out by the measure. The costing is also sensitive to how local authorities will change their spending as a result of the measure's impact on local authorities' Housing Revenue Accounts.

## Indirect effects on the economy forecast

**A.7** The OBR has not considered the indirect effects of the measures in the Spending Round, and will incorporate the effects into our next economic forecast if the measures, in aggregate, are considered to have notable impact on our economic forecasts.

## Impact on current receipts

**A.8** In addition to the macroeconomic effects, measures can have effects on the fiscal aggregates beyond the direct AME costings used in the Spending Round. Income within Local Authorities' Housing Revenue Accounts, which is classified as part of public corporations gross operating surplus, will be affected by the social rent reforms measure. In addition, some of the changes to social security benefits will affect tax liabilities, and there may also be changes in taxable income due to the behavioural effects of the DWP conditionality measures. The overall consequences of measures will be included in our forecast for the public finances for the Autumn Statement.



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This document can be found in full on our website: <http://www.hm-treasury.gov.uk>

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