



HM Treasury

# **An alternative fiscal path beyond 2016-17**

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March 2015





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# Contents

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	Page
Chapter 1      Introduction	3
Chapter 2      Scenario	5



# 1 Introduction

**1.1** The Chief Secretary to the Treasury has asked the Treasury to calculate the impact on the fiscal aggregates of a set of alternative assumptions on tax and spend for the years beyond 2016-17. These numbers are presented alongside the March 2015 forecast produced by the Office for Budget Responsibility (OBR) in their 'Economic and fiscal outlook' (EFO).

**1.2** The impact on real GDP of fiscal policy changes in later years is likely to be fully offset by monetary policy, although there is some inevitable uncertainty about when full offsetting would become the case. This assumption is consistent with the OBR's treatment of changes made to the 2019-20 Total Managed Expenditure (TME) assumption in Budget 2015. However, as set out in Box 3.2 of the OBR's March 2015 EFO, changes in the path of government spending will affect the composition of real GDP and the level of the GDP deflator. For simplicity, the Treasury has not modelled these effects. The scenario presented in this document therefore assumes the same path for GDP as the OBR's March 2015 forecast in addition to other key economic variables such as interest rates, inflation and the labour market.

**1.3** Table 1.A presents the OBR's March 2015 forecast as the baseline for comparisons against the alternative scenario.

**Table 1.A: OBR March 2015 Forecast**

£ billion, unless otherwise stated	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Receipts and Expenditure</b>					
Public Sector Current Receipts (PSCR)	667.4	700.9	731.2	764.5	804.3
Total Managed Expenditure (TME)	742.6	740.3	743.9	759.2	797.3
Of which:					
PSCE in Resource Departmental Expenditure Limits (RDEL) <sup>1</sup>	316.4	301.6	289.7	287.9	308.2
PSGI in Capital Departmental Expenditure Limits (CDEL)	42.0	42.4	43.6	47.2	50.5
Annual Managed Expenditure (AME)	384.3	396.2	410.6	424.2	438.6
<b>Public Sector Net Borrowing (PSNB)</b>	75.3	39.4	12.8	-5.2	-7.0
<b>Cyclically Adjusted Current Budget (CACB) Deficit</b>	39.3	7.1	-16.8	-35.3	-38.8
<b>TME (% GDP)</b>	39.6	38.1	36.8	36.0	36.0
<b>Public Sector Current Receipts (PSCR) (% GDP)</b>	35.5	36.1	36.2	36.2	36.3
<b>PSNB (% GDP)</b>	4.0	2.0	0.6	-0.2	-0.3
<b>Cyclically Adjusted Current Budget (CACB) Deficit (% GDP)</b>	2.1	0.4	-0.8	-1.7	-1.7
<b>Public Sector Net Debt (PSND) (% GDP)</b>	80.2	79.8	77.8	74.8	71.6

Source: OBR

<sup>1</sup> The presentation of spending in this document is the same as that in the OBR's forecast rather than the Treasury's DEL budgeting totals. The figures in the forecast for 2016-17 and the years beyond are implied totals in the forecast. PSCE in RDEL is calculated as the difference between PSCE and PSCE in AME in the forecast and PSGI in CDEL is similarly the difference between PSGI and PSGI in AME.





## 2 Scenario

**2.1** The alternative scenario set out in this document has the same fiscal aggregates as the OBR's March 2015 forecast up until 2016-17. It then assumes a different path for spending and receipts from 2017-18 onwards as set out in Table 2.A. This reflects an assumed impact of direct changes to policy on top of the assumptions used by the OBR to inform their forecast.

**Table 2.A: Scenario input assumptions**

£ billion	2017-18	2018-19	2019-20
<b>TME</b>	<b>765.0</b>	<b>791.8</b>	<b>833.5</b>
Of which:			
PSCE in RDEL	314.3	324.0	348.1
PSGI in CDEL	43.6	47.2	50.5
AME	407.1	420.6	435.0
<b>PSCR</b>	<b>743.2</b>	<b>776.7</b>	<b>816.7</b>

*Source: Chief Secretary to the Treasury*

**2.2** By the end of the forecast period it is assumed that:

- TME is £833.5 billion or 37.6% as a share of GDP with a £36.2 billion increase relative to the OBR's March 2015 forecast.
- PSCE in RDEL is £348.1 billion or 15.7% as a share of GDP with a £39.9 billion increase relative to the OBR's March 2015 forecast.
- PSGI in CDEL is unchanged at £50.5 billion or 2.3% as a share of GDP.
- AME is £435.0 billion or 19.6% as a share of GDP with a £3.7 billion decrease relative to the OBR's March 2015 forecast.
- Public Sector Current Receipts is £816.7 billion or 36.8% as a share of GDP with a £12.4 billion increase relative to the OBR's March 2015 forecast.

**2.3** Table 2.B presents the Treasury's calculations of the key fiscal aggregates based on the input assumptions.

**Table 2.B: Fiscal path for the scenario**

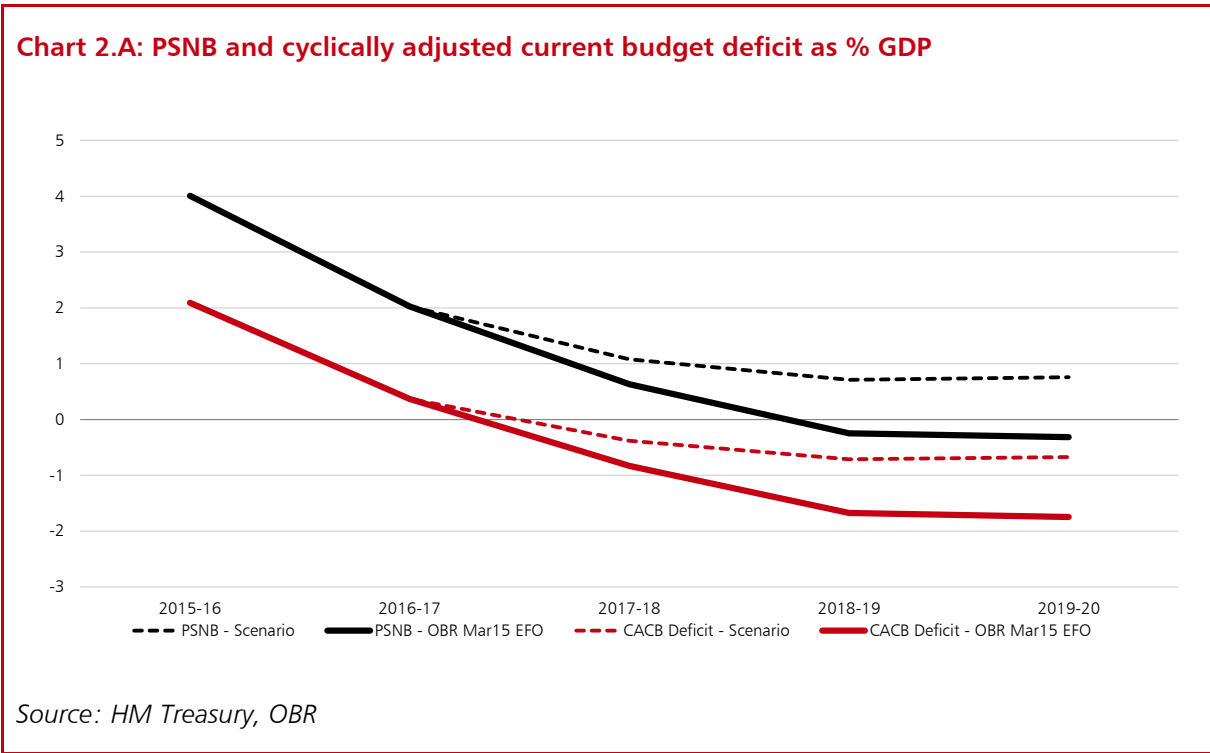
£ billion, unless otherwise stated	2017-18	2018-19	2019-20
PSNB	21.8	15.0	16.8
CACB Deficit	-7.7	-15.0	-15.0
PSCR (% GDP)	36.8	36.8	36.8
TME (% GDP)	37.8	37.5	37.6
PSNB (% GDP)	1.1	0.7	0.8
CACB (% GDP)	-0.4	-0.7	-0.7
PSND (% GDP)	78.2	76.1	73.9

*Source: HM Treasury*

**2.4** By the end of the forecast period it is assumed that:

- By 2019-20, this implies that PSNB would be higher overall at 0.8% of GDP compared to the surplus of 0.3% in the OBR’s March 2015 forecast and PSND would be 73.9% as a share of GDP compared with 71.6% in the OBR’s March 2015 forecast.
- The surplus on the CACB Deficit<sup>1</sup> is lower at £15 billion relative to £38.8 billion in the OBR’s March 2015 forecast.
- The overall increase in AME from additional debt interest payments<sup>2</sup> is calculated to be £1.0 billion by the end of the forecast period. It is assumed that any changes to debt interest are already included in the input assumptions for the AME forecast.

**2.5** Chart 2.A presents the path of PSNB and the CACB deficit for both the OBR’s March 2015 forecast and the alternative scenario.



**2.6** Table 2.C presents the changes in this scenario relative to the OBR’s March 2015 forecast.

**Table 2.C: Changes in this scenario relative to the OBR’s March 2015 forecast**

£ billion, unless otherwise stated	2017-18	2018-19	2019-20
Changes to CACB	9.0	20.3	23.8
Changes to PSNB	9.0	20.3	23.8
Of which:			
PSCR	12.0	12.2	12.4

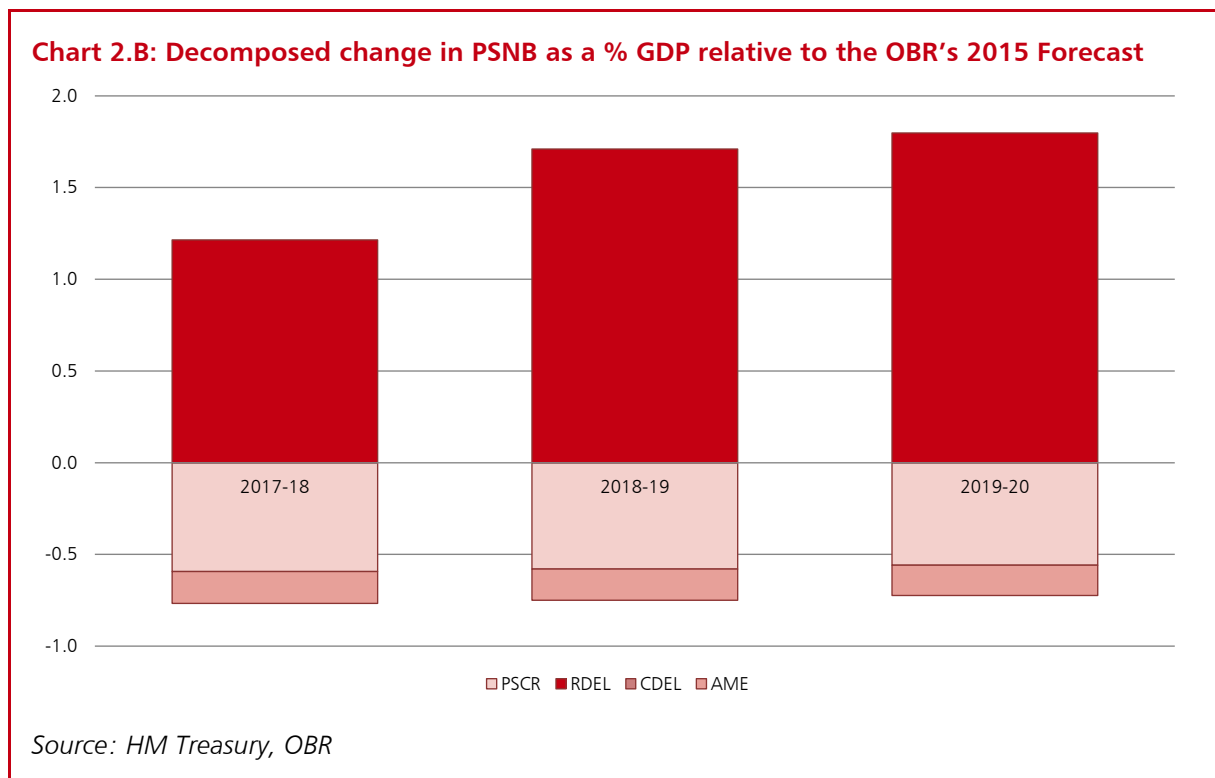
<sup>1</sup> Cyclically adjusted current budget has been calculated on the basis of the OBR’s estimates of a contemporaneous cyclical adjustment coefficient to the output gap for the current budget of 0.5 and a lagged coefficient of 0.2. Working paper No.3, Cyclically adjusting the public finances, OBR

<sup>2</sup> Debt interest has been calculated using the HM Treasury debt interest ready reckoner consistent with the Budget 2015 forecast. This assumes that the increase in cash is equal to the increase in accruals.

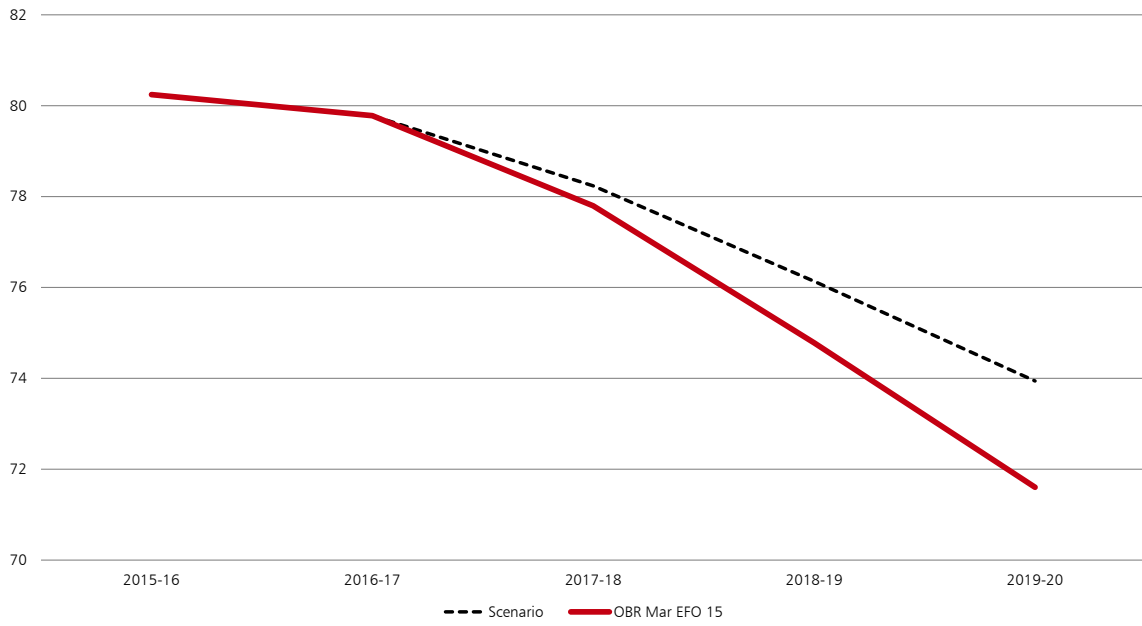
£ billion, unless otherwise stated	2017-18	2018-19	2019-20
TME	21.0	32.5	36.2
Of which:			
PSCE in RDEL	24.5	36.1	39.9
PSGI in CDEL	0	0	0
AME	-3.5	-3.6	-3.7
Changes to PSNR (%GDP)	0.6	0.6	0.6
Changes to TME (% GDP)	1.0	1.5	1.6
Changes to PSNB (% GDP)	0.4	1.0	1.1
Changes to CACB (% GDP)	0.4	1.0	1.1
Changes to PSND (% GDP)	0.4	1.4	2.3

Source: HM Treasury

2.7 Charts 2.B and 2.C present the decomposed change in PSNB and the path of public sector net debt.



**Chart 2.C: Public sector net debt as a % GDP**



Source: HM Treasury, OBR



## **HM Treasury contacts**

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