

Template for costing policies of opposition parties

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Description of policy
<p>The SNP has set out a policy of increasing departmental spending in the next Parliament.</p> <p>Source: "In terms of the UK economy, we believe that debt should be reduced as a percentage of GDP – but more gradually than either of the largest UK parties is proposing. For example if you limited real terms growth in departmental spending to half a per cent each year – it would reduce debt as a share of GDP in every year from 2016-17. But it would also permit – compared to current UK government plans - a further £180 billion of investment across the UK over the next four years."</p> <p>http://news.scotland.gov.uk/News/An-alternative-to-austerity-15e5.aspx</p>
Additional policy assumptions
<ul style="list-style-type: none"> • Assume that TDEL rises at 0.5% a year in real terms from 2016-17 to 2019-20 (i.e. using 2015-16 as a base year) • Assume all the other spending and fiscal variables follow the Budget 15 forecast • As a baseline use the Budget 15 fiscal forecast
Additional technical modelling assumptions or judgements required
<ul style="list-style-type: none"> • The costing uses PSCE in RDEL and PSGI in CDEL as proxies for RDEL excluding depreciation (RDEL ex) and CDEL (which together make up TDEL). These are the closest variables that are contained within the OBR forecast (although they are implied residuals within the government's fiscal assumption rather than forecasted elements). The OBR publish a reconciliation of PSCE in RDEL and PSGI in CDEL with RDEL (and RDEL ex) and CDEL for years to 2015-16 in their Fiscal Supplementary Tables (available at http://budgetresponsibility.org.uk/) • Debt interest consequentials have been included to give a more complete costing. These have been calculated using HM Treasury's debt interest ready reckoner consistent with the Budget 2015 forecast. They assume that the increase in cash is equal to the increase in accruals. They are based on a single iteration of the ready reckoner (i.e. the additional debt servicing costs that arise directly from the policy are not then put back into the financing requirement).
If needed, information required on distributional effects of the policy
None
Cost/Revenue to the Exchequer over five years

The impact on Public Sector Net Borrowing (PSNB) and Public Sector Net Debt (PSND) of a policy to grow TDEL in real terms by 0.5% a year (with receipts and other spending following the Budget 2015 forecast)

	2015-16 (base year)	2016-17	2017-18	2018-19	2019-20
Baseline (Budget 15 forecast)					
PSNB % GDP	4.0	2.0	0.6	-0.2	-0.3
PSNB £bn	75.3	39.4	12.8	-5.2	-7.0
PSND % GDP	80.2	79.8	77.8	74.8	71.6
<i>Memo: central government gross debt interest (£bn)</i>	46.0	50.7	55.2	56.3	57.4
Scenario					
PSNB % GDP	4.0%	3.1%	2.6%	2.1%	1.4%
PSNB £bn	75.3	60.1	52.5	43.6	31.3
PSND % GDP	80.2%	80.8%	80.7%	79.8%	78.1%
<i>Memo: central government gross debt interest (£bn)</i>	46.0	50.9	56.1	58.3	60.5

	2015-16 (base year)	2016-17	2017-18	2018-19	2019-20
Change: policy being costed relative to baseline*					
PSNB % GDP	-	1.1%	2.0%	2.3%	1.7%
<i>Of which change in debt interest payments (% GDP)</i>	-	0.0%	0.0%	0.1%	0.1%
PSNB £bn	-	20.7	39.7	48.8	38.3
<i>Of which change in debt interest payments (£bn)</i>	-	0.2	0.9	2.0	3.1
PSND % GDP	-	1.0%	2.9%	5.1%	6.5%

*Numbers may not sum due to rounding

- The base year is 2015-16. The policy grows TDEL (proxied by the sum of PSCE in RDEL and PSGI in CDEL) in real terms by 0.5% each year after that. We assume that receipts and other spending remain as in the OBR's Budget 15 forecast, with the exception of the impact of debt interest consequentials.
- NB For years beyond 2015-16, the government sets a fiscal assumption expressed in terms of Total Managed Expenditure (TME) which determines the overall path of fiscal consolidation but not the composition. For their forecast, the Office for Budget Responsibility then calculate the level of PSCE in RDEL implied in the forecast given the assumption expressed in terms of TME, and forecast resource Annually Managed Expenditure and capital spending. The government has not set detailed plans for the composition of consolidation beyond 2015-16. As highlighted by the OBR in their March 2015 'Economic and fiscal outlook', "since December 2012, the spending assumption has been described in the Treasury's Budget and Autumn Statement documents as a 'fiscal assumption' rather than a spending assumption, with those

documents noting that tax rather than spending could deliver some of the consolidation implied by the assumption”.

- To calculate the impact on PSND, the assumption used is that, aside from TDEL (proxied by PSCE in RDEL and PSGI in CDEL) and debt interest consequentials all the other spending and fiscal variables follow the Budget 15 forecast. Nominal debt in each year is therefore increased by the cumulative increase in TDEL plus debt interest consequentials.
- no second round or other behavioural effects are assumed
- numbers are presented rounded to the nearest £0.1bn in nominal prices and as a percentage of GDP rounded to 1 decimal place
- changes to PSNB as a percentage of GDP and PSND as a percentage of GDP are the percentage point change between the baseline and the policy

Distributional effects (if none requested, any significant):

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Comparison with current system (if applicable):

The government has not set detailed plans for the composition of consolidation beyond 2015-16. For years in which departmental budgets have not yet been set (i.e. beyond 2015-16) the government sets a fiscal assumption expressed in terms of Total Managed Expenditure (TME). This determines the overall path of fiscal consolidation but not the composition. The Office for Budget Responsibility calculate the level of PSCE in RDEL implied in the forecast given the assumption expressed in terms of TME, and forecast resource Annually Managed Expenditure (AME) and capital spending. For PSGI in CDEL the OBR also calculates it as the level implied by the government’s assumption for capital spending net of their forecast for Capital AME spending.

Other comments (including other Departments consulted):

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To be completed by Permanent Secretary’s Office
Date costing signed off:

5 March 2015

[If applicable]
Date revised costing signed off:

24 March 2015