

Budget 2003 Briefing

Institute for Fiscal Studies

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Measures affecting households

Matthew Wakefield

Outline

- Distributional analysis of measures directly affecting households
- Child Trust Fund

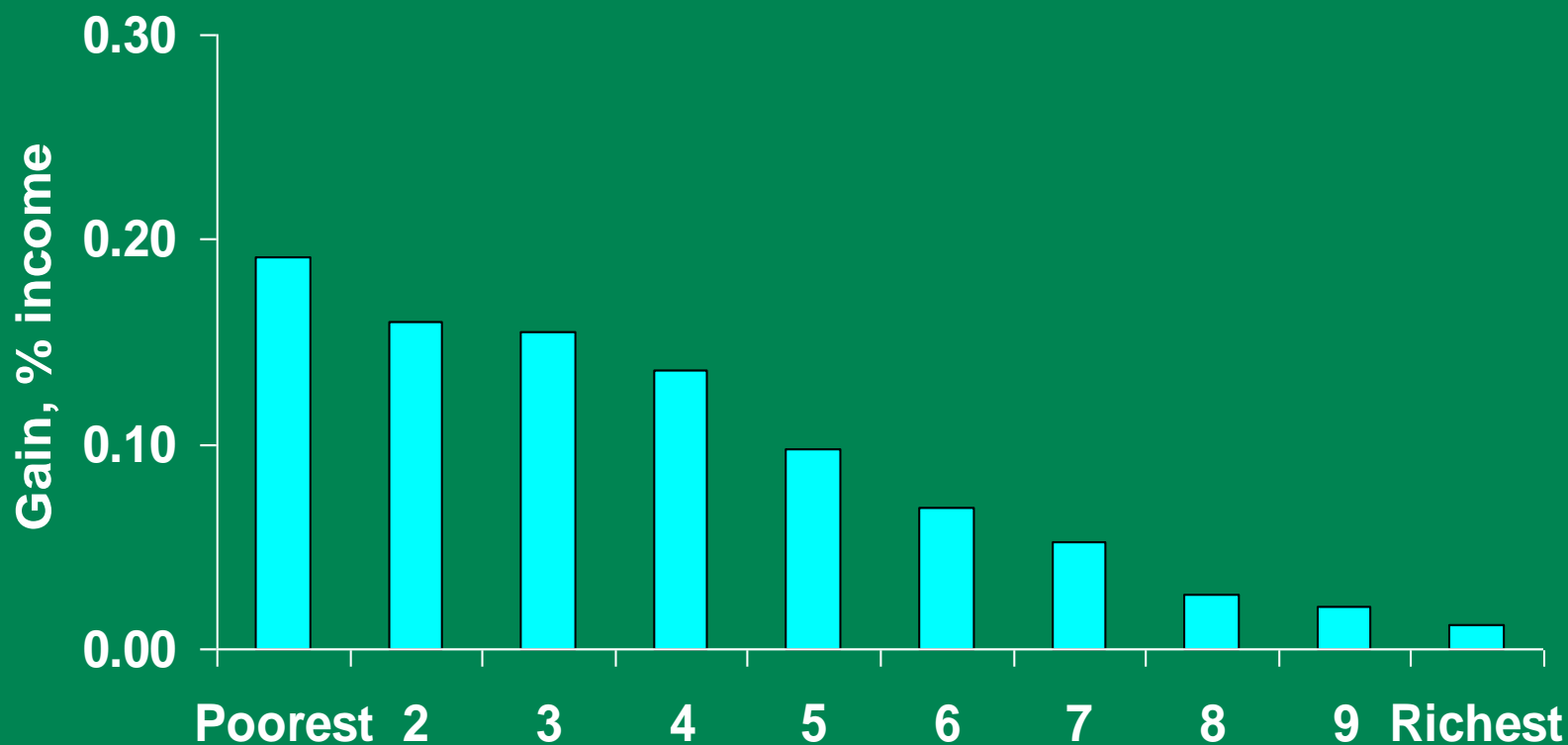
The Measures

- £100 per year if aged 80+
- Housing Benefit disregard
- Duty freeze on spirits, cider, sparkling wine

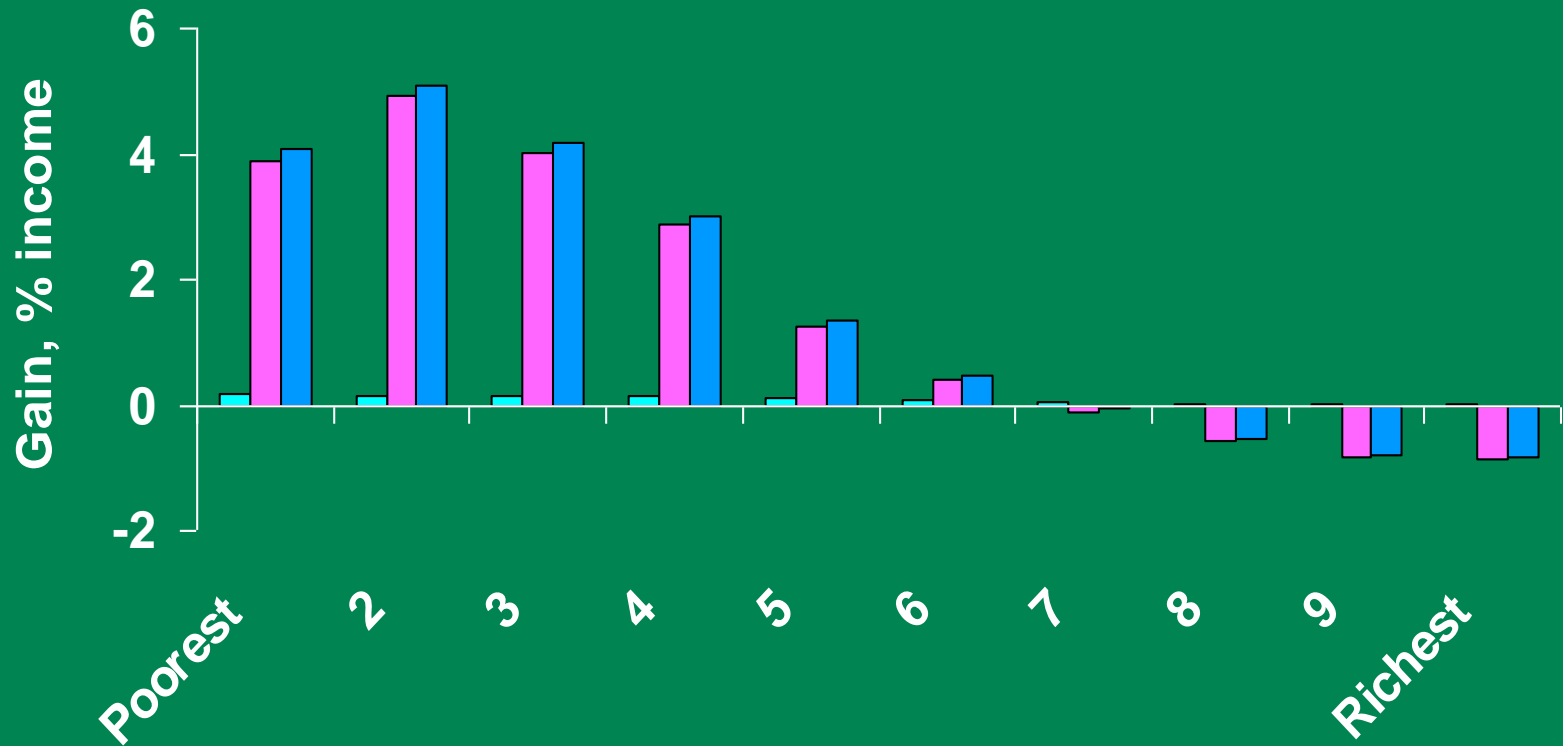
The Measures

- £100 per year if aged 80+
 - £ 180m
- Housing Benefit disregard
 - £ 45m
- Duty freeze on spirits, cider, sparkling wine
 - £ 30m
- Total cost: £ 255m

Distributional Effects



Distributional Effects



Effects by family type

Family Type	Average weekly change	
	Budget 2003	
Single parent	32p	
SE couple w kids	26p	
Single pensioner	61p	
Pensioner couple	69p	

Effects by family type

Family Type	Average weekly change	
	Budget 2003	Preannounced
Single parent	32p	£8.85
SE couple w kids	26p	£2.72
Single pensioner	61p	£7.55
Pensioner couple	69p	£8.72

Measures omitted

- Not affecting households directly
- Company car tax (+£125m)
- Anti-VAT fraud (+£235m)
- Fuel duty freeze (-£300m in 2003/04)
- The Child Trust Fund (-£235m)

The Child Trust Fund

- Endowment at birth £250 / £500
 - Cost: £ 235million
- Additional contributions from family/friends
- Accessible at 18
- No restrictions on how funds can be spent
- Open market competition

The Child Trust Fund: issues

- Full proposals in summer
 - Further state contributions?
 - Incentives to family/friends?
- Accounts by 2005

Why a Child Trust Fund?

- Change distribution of wealth for young adults:
 - £ 250 to £ 600
 - £ 500 to £ 1200
- Accurately targeted?
 - regular testing

Why a Child Trust Fund?

- Change distribution of wealth for young adults
- Lump-sum to 18 year olds: 'Asset effect'
- Plus learn
 - forward planning and
 - managing financial assets
- Alternatives

Conclusions

- CTF new, will help a certain group
- Small set of changes to taxes / benefits

The Public Finances

Christine Frayne

Changes since November PBR

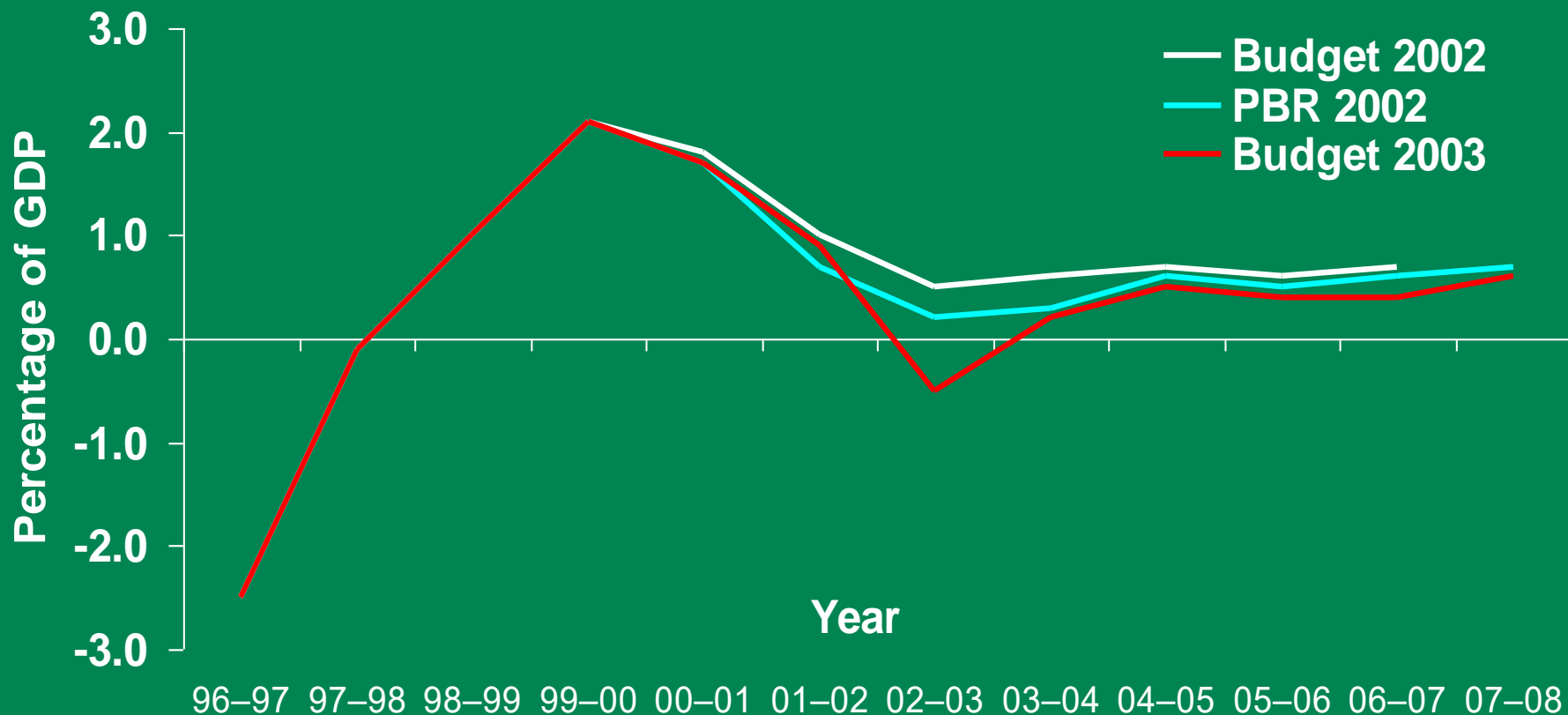
- GDP forecast changes :
- 2003: $2\frac{1}{2}$ –3% to 2– $2\frac{1}{2}$ %
- 2004: 3– $3\frac{1}{2}$ % unchanged
- 2005: $2\frac{3}{4}$ – $3\frac{1}{4}$ % to 3– $3\frac{1}{2}$ %

Changes since November PBR

- Budget measures :
- 2003-04: - £0.5bn,
(+ £0.3bn with margin reset)
- 2004-05: - £0.3bn
(- £1.2bn with margin reset)
- 2005-06: + £0.1bn
(- £1.6bn with margin reset)

Meeting the golden rule?

Cyclically adjusted current budget surplus

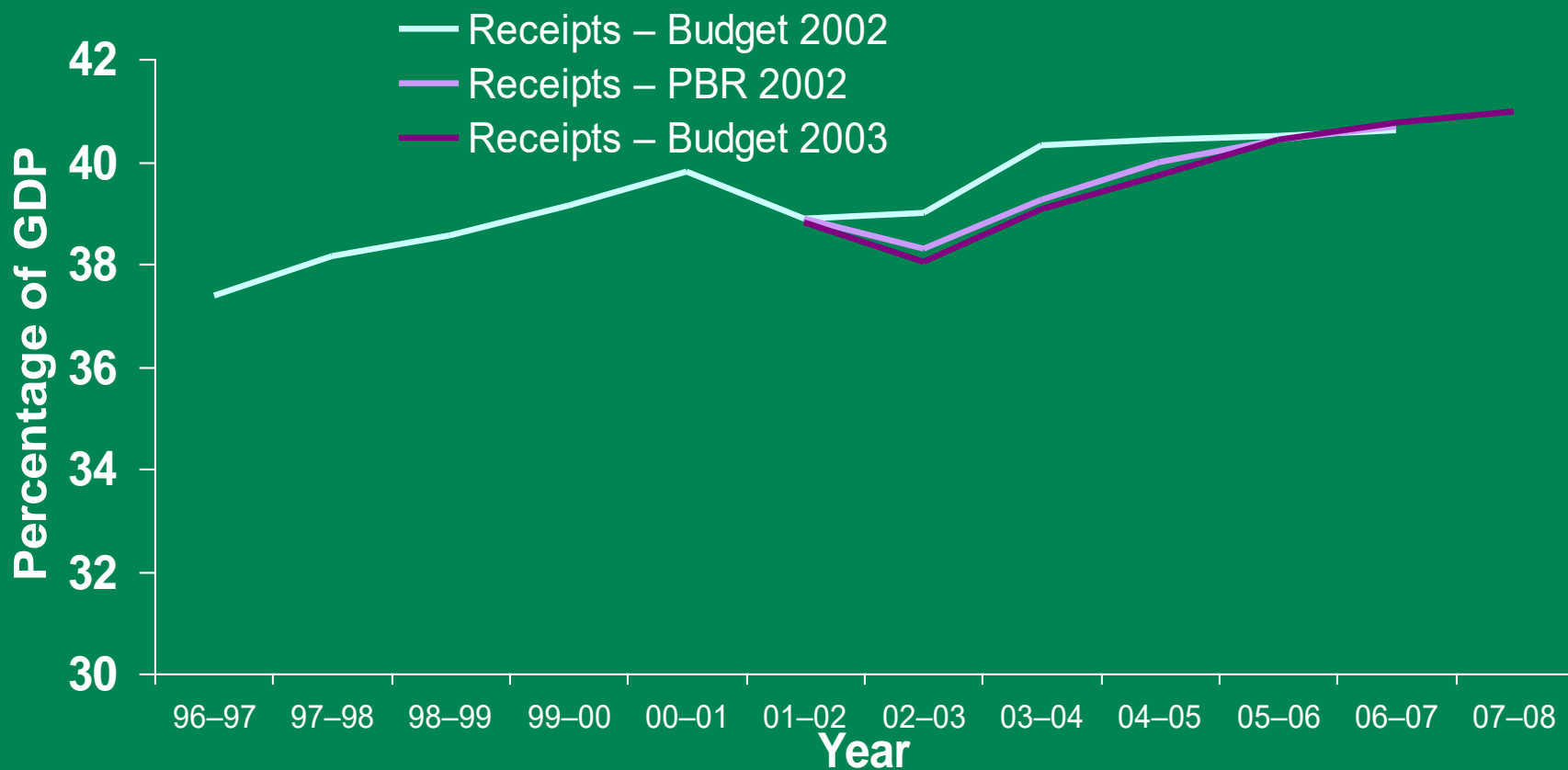


Increase in spending

£ billion	2002-03	2003-04	2004-05	2005-06
Change since PBR	1.2	0.9	3.0	4.9

- War contingency reserve
- AME reserve (reduced CMF spending)
- Social security benefits
- Local authority self-financed expenditure
- Higher debt interest spending

Revenue forecasts



Change in revenue forecasts

£bn	2002-03	2003-04	2004-05	2005-06	2006-07
Total non-discretionary changes	-10.7	-14	-9	-2	0
Equity prices	-1	-3½	-5	-5	-5
Compliance and enforcement	0	2½	3½	4	4
Financial company profits	-5	-6	-4½	-1½	-1
Other economic & forecasting effects	-5	-5½	-2½	0	1½

Conclusions

- Treasury forecasts:
 - Golden rule to be met over current economic cycle
 - Higher borrowing only temporary
- But how cautious are these forecasts?
 - IFS Green Budget forecasts: £4bn to £11bn tax increases
- Additional spending pressures:
 - Child poverty target
 - World-class public services?

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