

Budget 2004 Briefing

Institute for Fiscal Studies

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The Public Finances

Christine Frayne

Overall picture

- No change to GDP growth rates
- Policy measures
- Set out spending envelope for the Spending Review 2004

Changes in public sector net borrowing

	2003-04	2004-05	2005-06	2006-07	2007-08
Budget 2004	37.5	32.9	30.6	27	27
PBR 2003	37.4	31.1	29.9	27	27
Change	+0.1	+1.8	+0.7	0	0

Changes in public sector net borrowing

	2003-04	2004-05	2005-06	2006-07	2007-08
Change	+0.1	+1.8	+0.7	0	0
Current spending	0.6	0.6	1.3	2	2
Investment	-1.8	-0.3	0	0	0
Receipts	-1.3	-1.5	0.6	2	2

Change in revenue forecasts

£bn	2003-04	2004-05	2005-06	2006-07	2007-08
Total changes	-1.3	-1.5	0.6	1½	2
Total non-discretionary changes	-1.3	-1½	-½	0	0
VAT assumption	0	-½	0	½	1
Equity Prices	0	½	1	1	1
Consumers' expenditure	-1	0	½	½	½
Fiscal forecasting changes	0	-1	-1	-1½	-1½

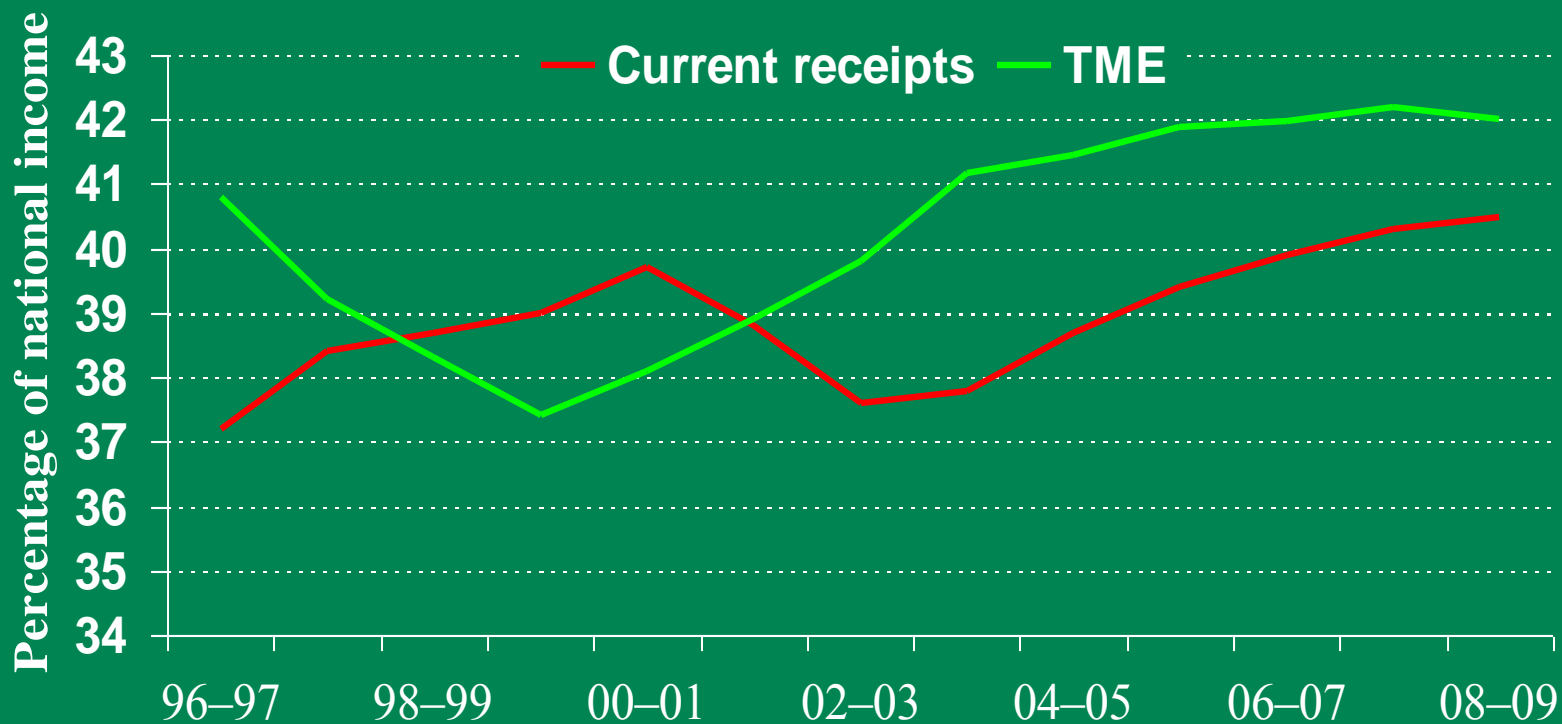
Discretionary Budget measures

£ million	2004-05	2005-06	2006-07
Local authority business growth incentives	0	-150	-300
£100 payment to the over 70s	-475	0	0
Distributed profits minimum rates	10	340	490
Other tax compliance revenues	315	430	430
Fuel duties and VED	-425	-115	-115
Total	-725	65	-170

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AME margin	-1000	-2000	-

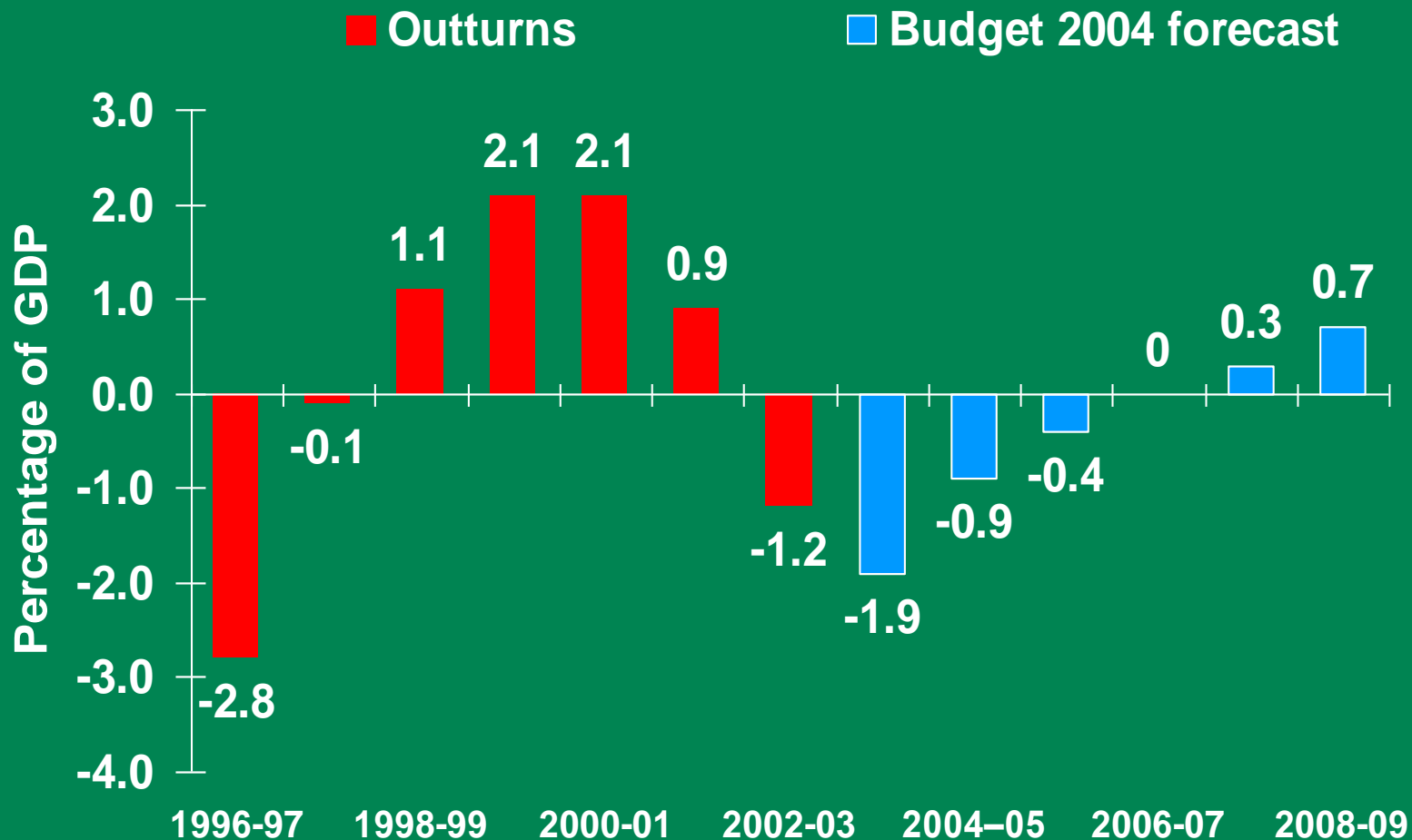
Receipts & spending as % GDP



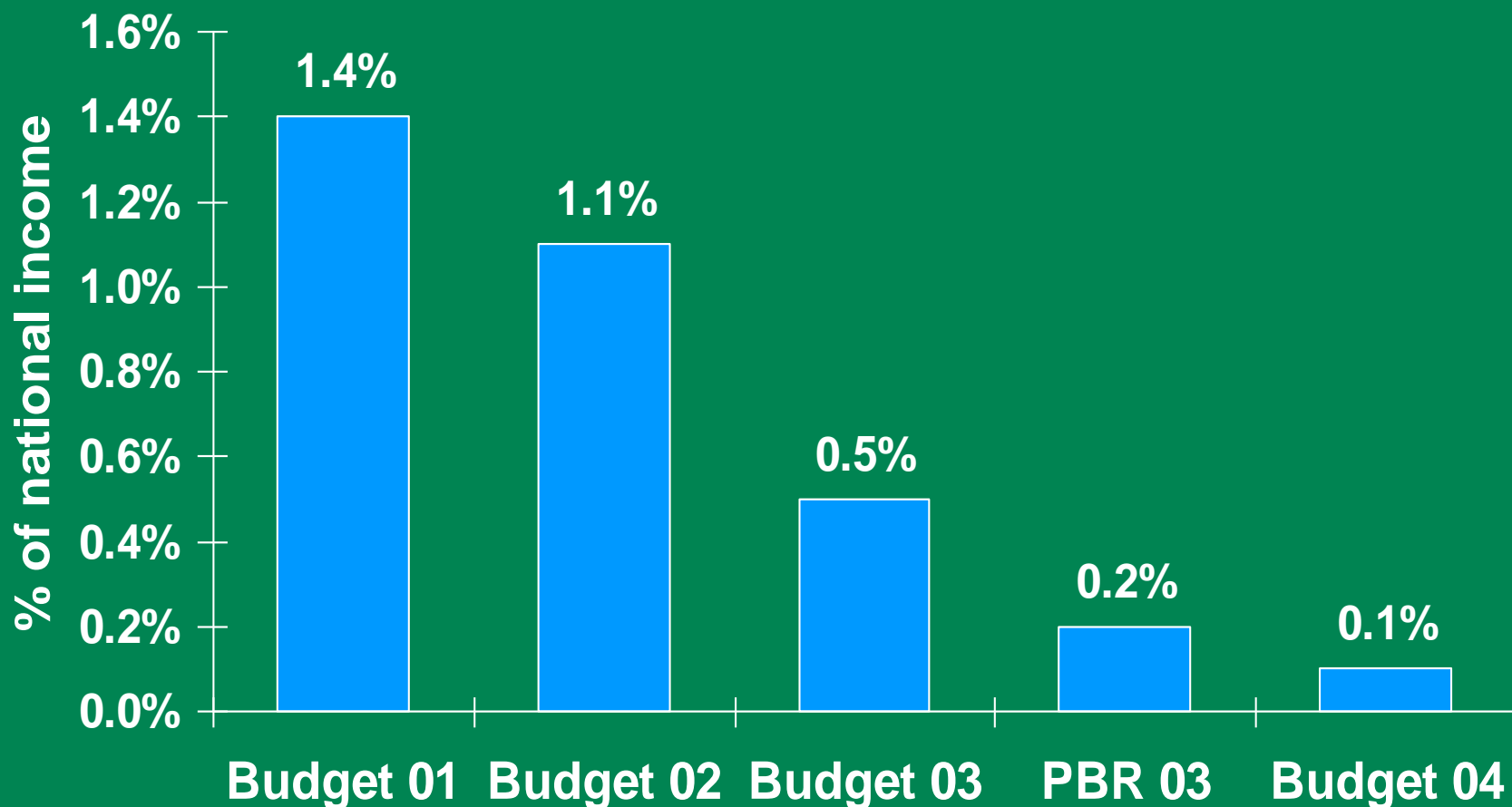
The famous fiscal rules

- Golden rule: only borrow to invest
 - Receipts cover current spending
 - Surplus or balance on current budget
- Judged over the economic cycle
- Sustainable investment rule: debt at a 'stable and prudent' level, $\leq 40\%$ of national income

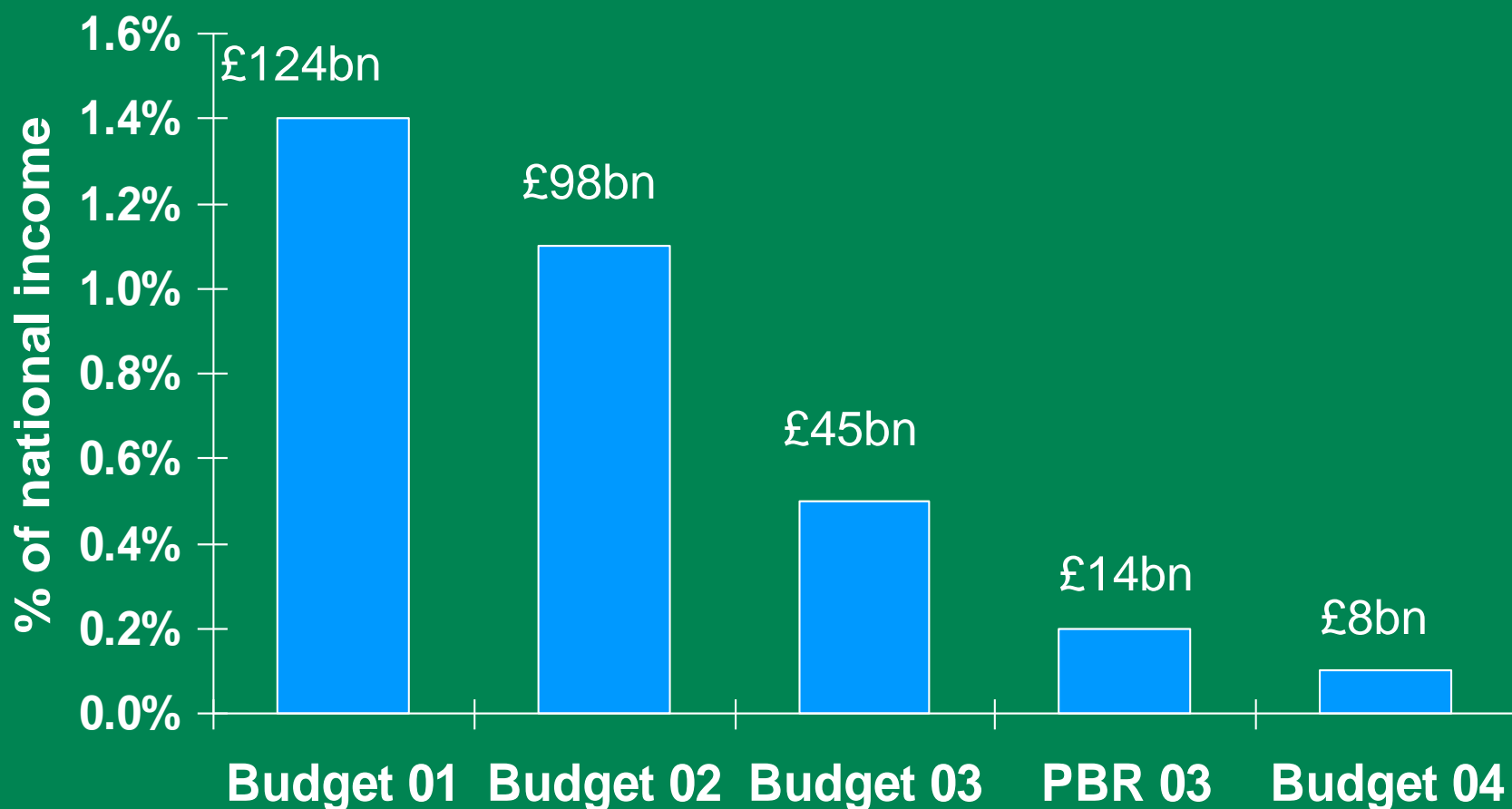
Current budget surpluses



Average surplus on current budget by 2005-06

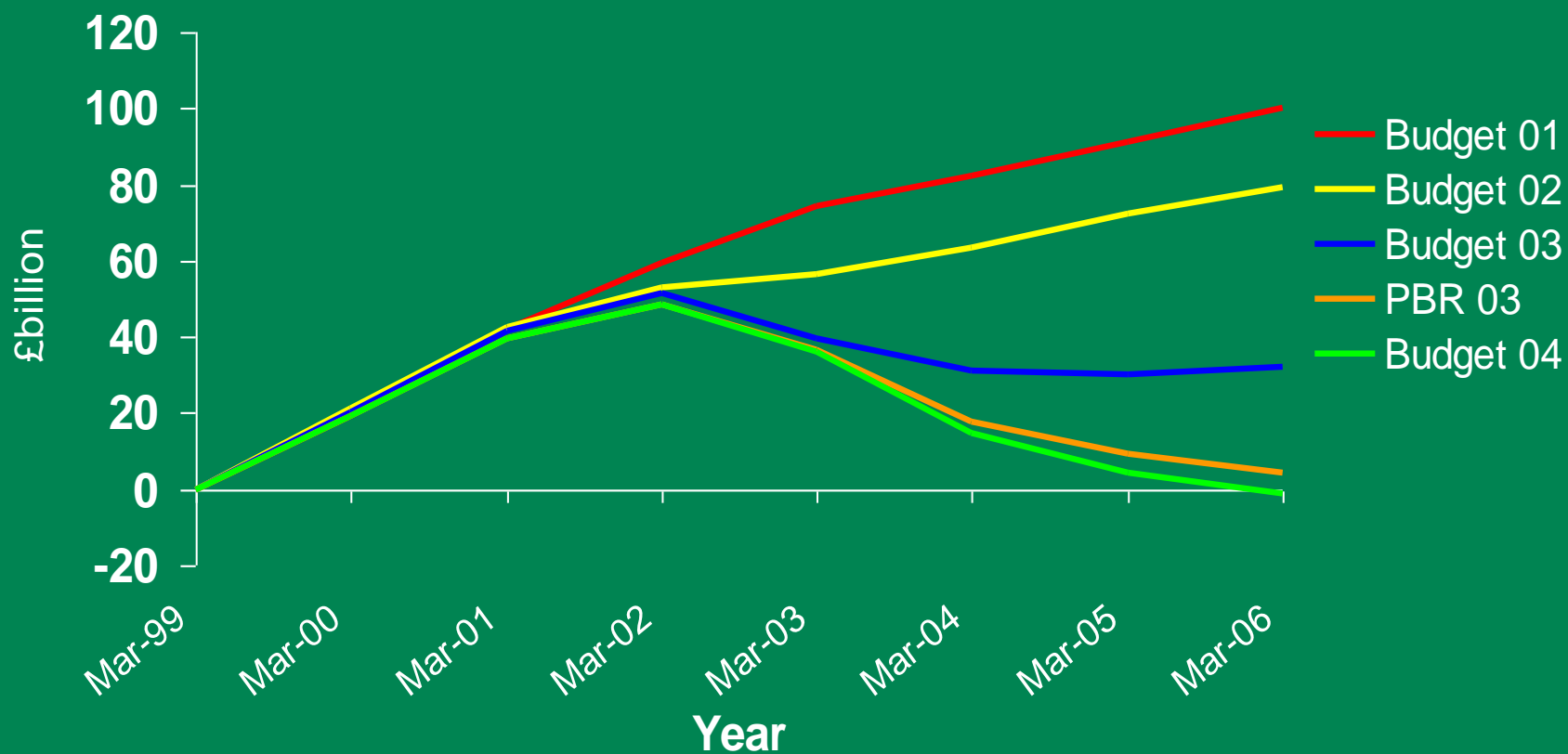


Cumulative surplus on current budget in 2005-06



“There is a margin against the golden rule of £11 billion this cycle, including the AME margin” (Introduction, Appendix C, Budget 2004)

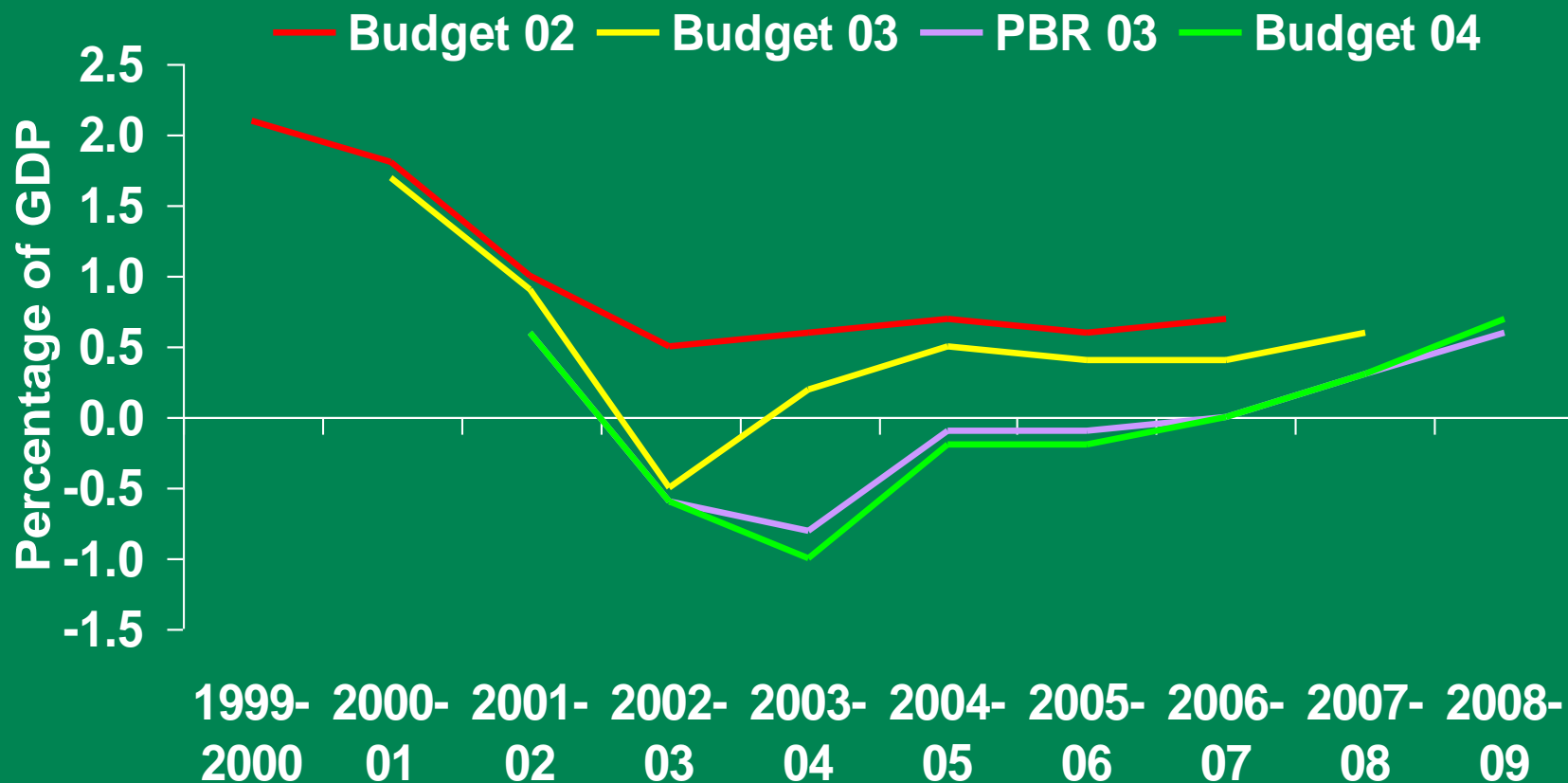
Cumulative current budget



So what is the verdict on the Golden Rule?

- Small room for manoeuvre on the % GDP figure
- Missed on the cash summation measure
- But forward looking?

Cyclically-adjusted current budget



Public sector net debt

% GDP	01–02	02–03	03–04	04–05	05–06
Budget 2001	30.3	29.6	29.7	29.9	30.0
Budget 2004	30.2	30.8	33.2	34.4	35.5

Conclusions

- Little change since PBR 2003
- Very little room for manoeuvre over current cycle
- Slightly bigger improvement in the underlying fiscal position into the next cycle

Public spending

Carl Emmerson

What did the Budget tell us? (1)

- Total spending in 2006–07 and 2007–08
- Current / Capital split also set
- Education spending pre-announced
- (NHS spending already set in Budget 2002)

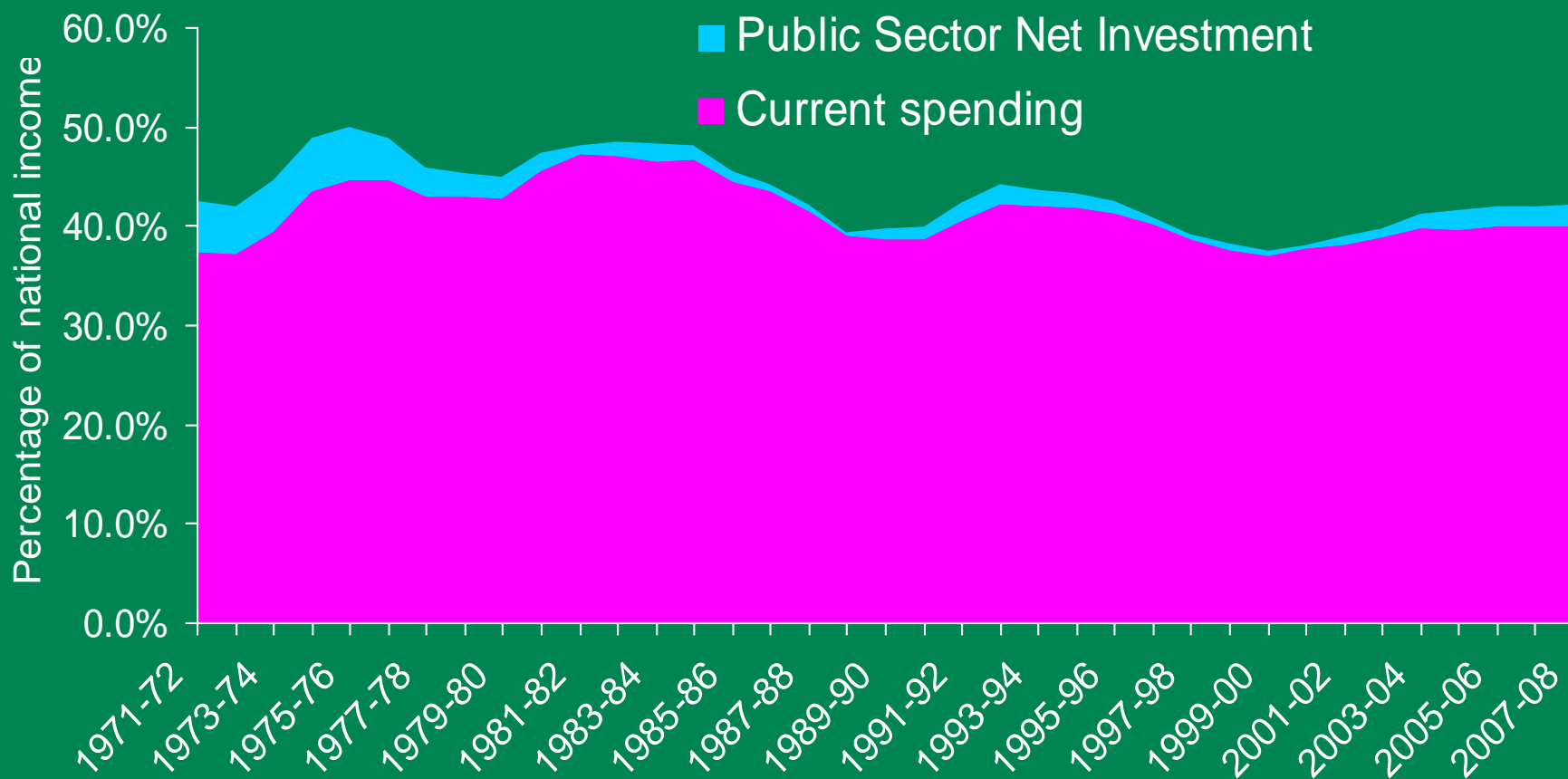
What did the Budget tell us? (2)

- Promised real increases in:
 - Defence, transport, home office, housing, local government, services to the elderly and children
- HE funding/student 'maintained' in real terms
- Nominal freeze in all administration spending

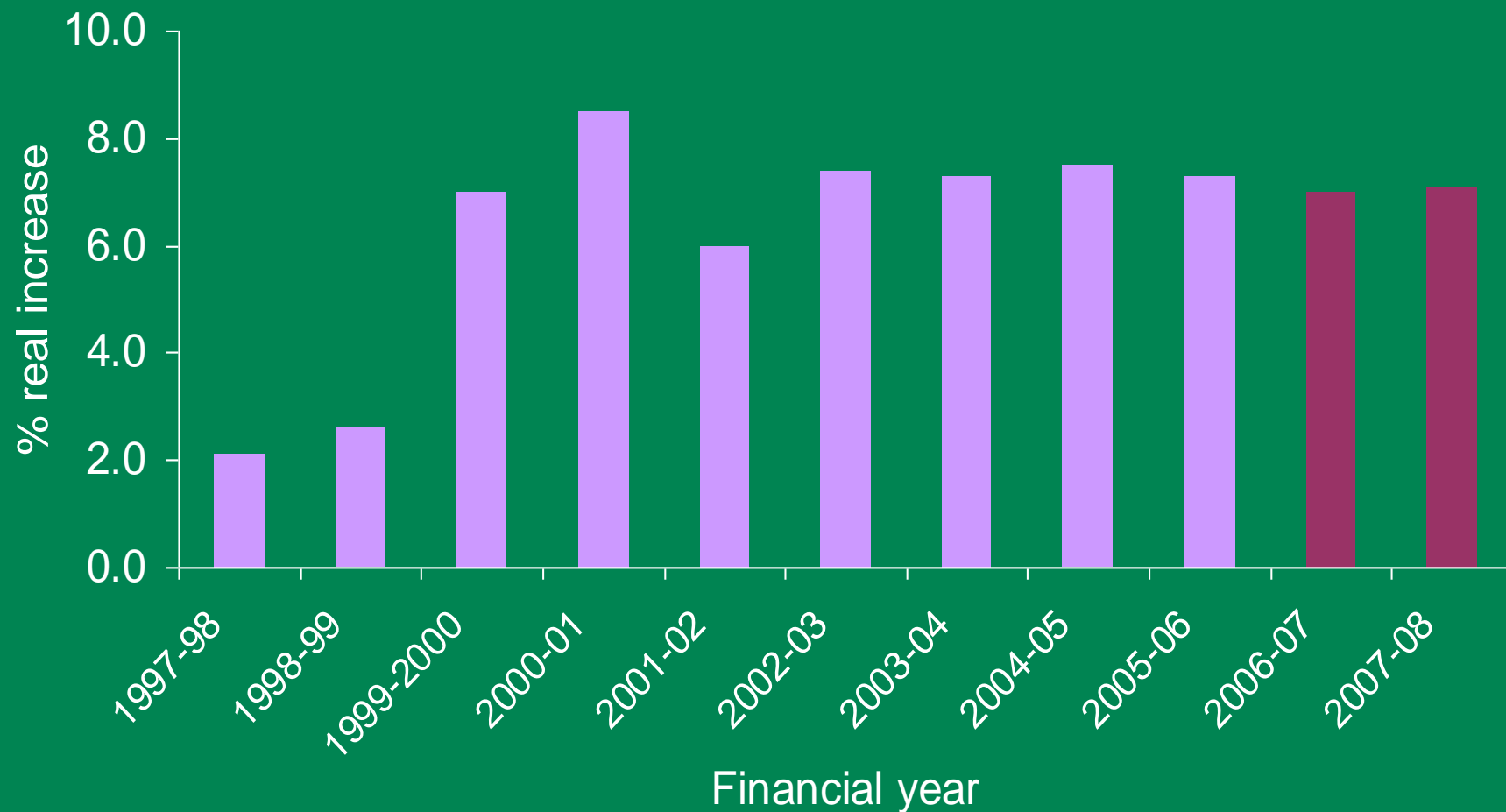
What remains for SR2004?

- DEL / AME split
- Precise allocation to other departments

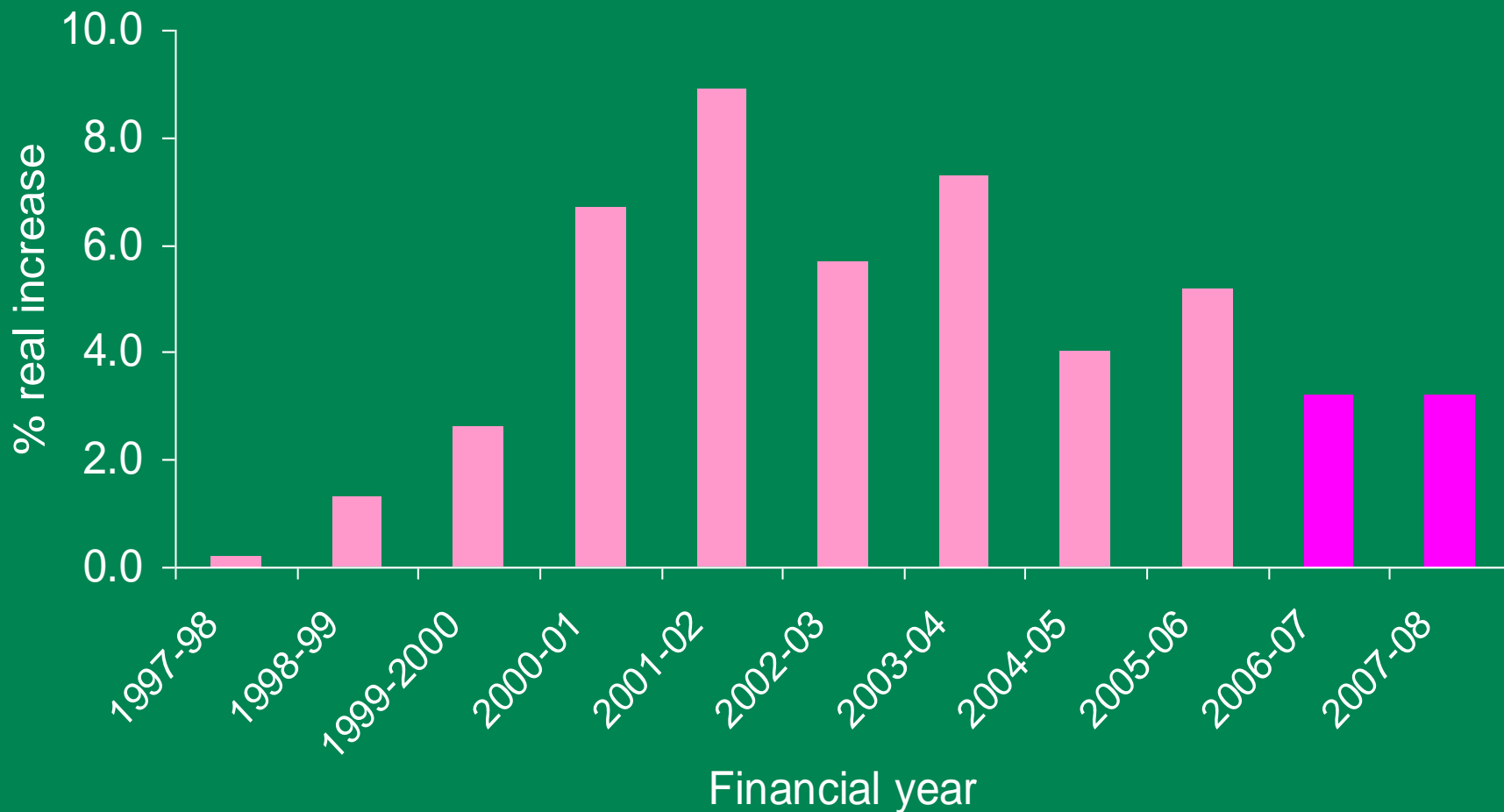
Public spending over time



NHS spending over time



Education spending over time



Cutting the cake

	2007/08 £ bn	Av. real inc. 06/07–07/08	2007/08 % of GDP
TME	£579bn	2.7%	42.2%

Cutting the cake

	2007/08 £ bn	Av. real inc. 06/07–07/08	2007/08 % of GDP
NHS	£109.4bn	7.0%	8.0%
Education	£76.6bn	3.2%	5.6%
TME	£579bn	2.7%	42.2%

Cutting the cake

	2007/08 £ bn	Av. real inc. 06/07–07/08	2007/08 % of GDP
NHS	£109.4bn	7.0%	8.0%
Education	£76.6bn	3.2%	5.6%
Other	£393.0bn	1.4%	28.6%
TME	£579bn	2.7%	42.2%

Administrational savings

- Gershon review:
 - Increased shared purchasing arrangements
 - Streamlined back office operations
 - Reduced transaction costs
- Nominal freeze in all admin spending
 - Would save at least £1.1bn in 2007–08

Administrational savings

“the Secretary for Work is announcing today for his Department a gross reduction of 40,000 staff posts, a redeployment of 10,000 posts to new priorities and thus an overall reduction over 4 years of 30,000 posts. Staff numbers will fall from 130,000 now to – by 2008 – 100,000”

- Not a completely new announcement – DWP staff numbers already forecast to fall from 130,200 in 2002–03 to 115,900 in 2005–06
- Announcement is an extension of current policy

Efficiency savings

- Target of efficiency increase of 2½% a year
 - £20bn a year by 2007–08
 - Aspiration is to deliver continued improvements in public services at less cost
 - Measuring whether this is achieved is difficult
 - 2½% greater than the 2¼% growth in productivity forecast across the UK economy

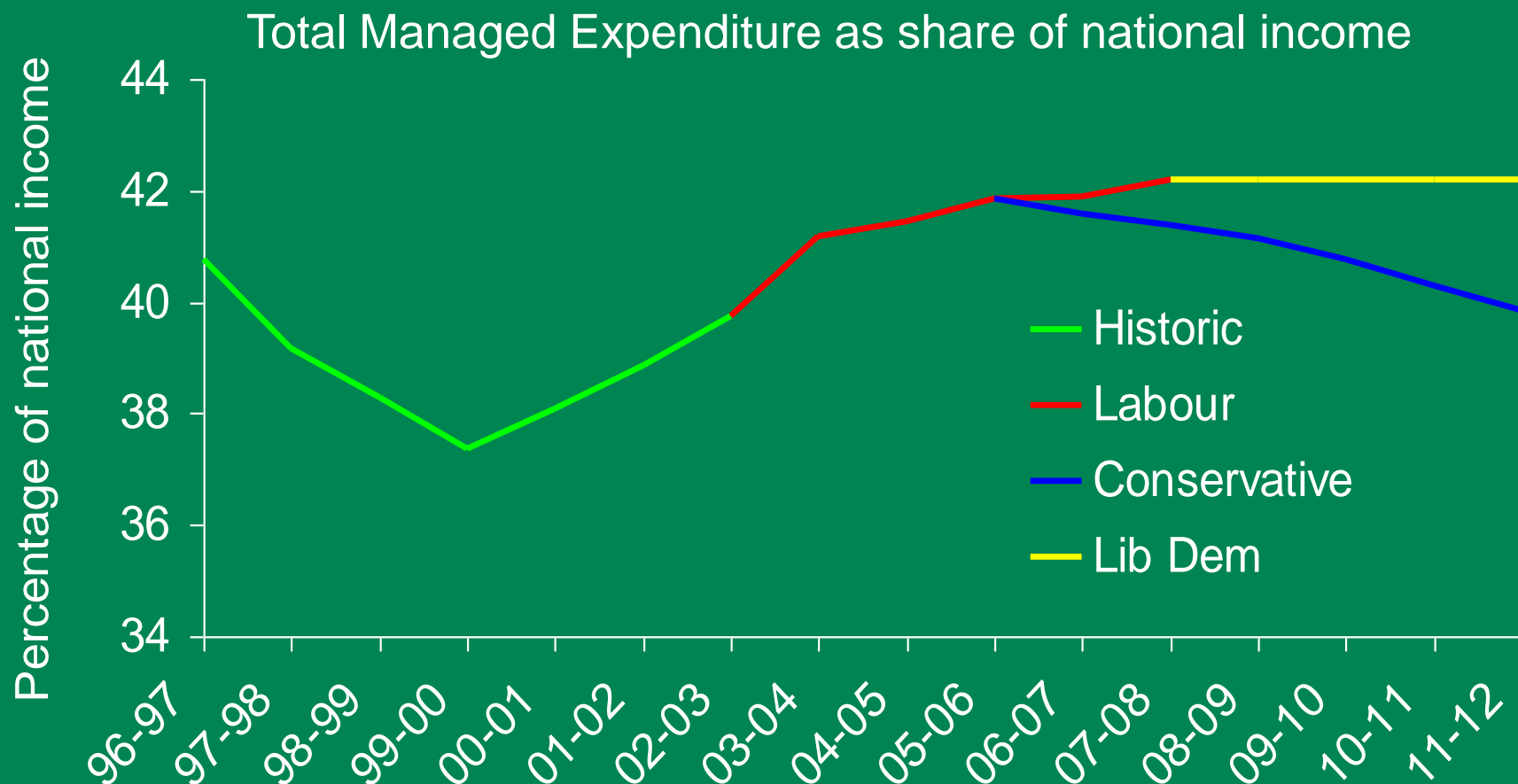
Conservatives alternative:

- Cut spending as a share of national income
- Increased spending on schools and the NHS and pensioners
- Cut spending on central government administration
- Reductions in spending as a share of national income in other areas

Liberal Democrats alternative:

- Public spending to remain constant over time
- Redirecting spending towards priority areas
- Individuals on high incomes to pay higher tax to finance
 - Abolition of graduate charge
 - Free personal care for the elderly
 - (and reduction in local taxation)
- Any additional efficiency savings used to reduce borrowing

How the spending plans compare



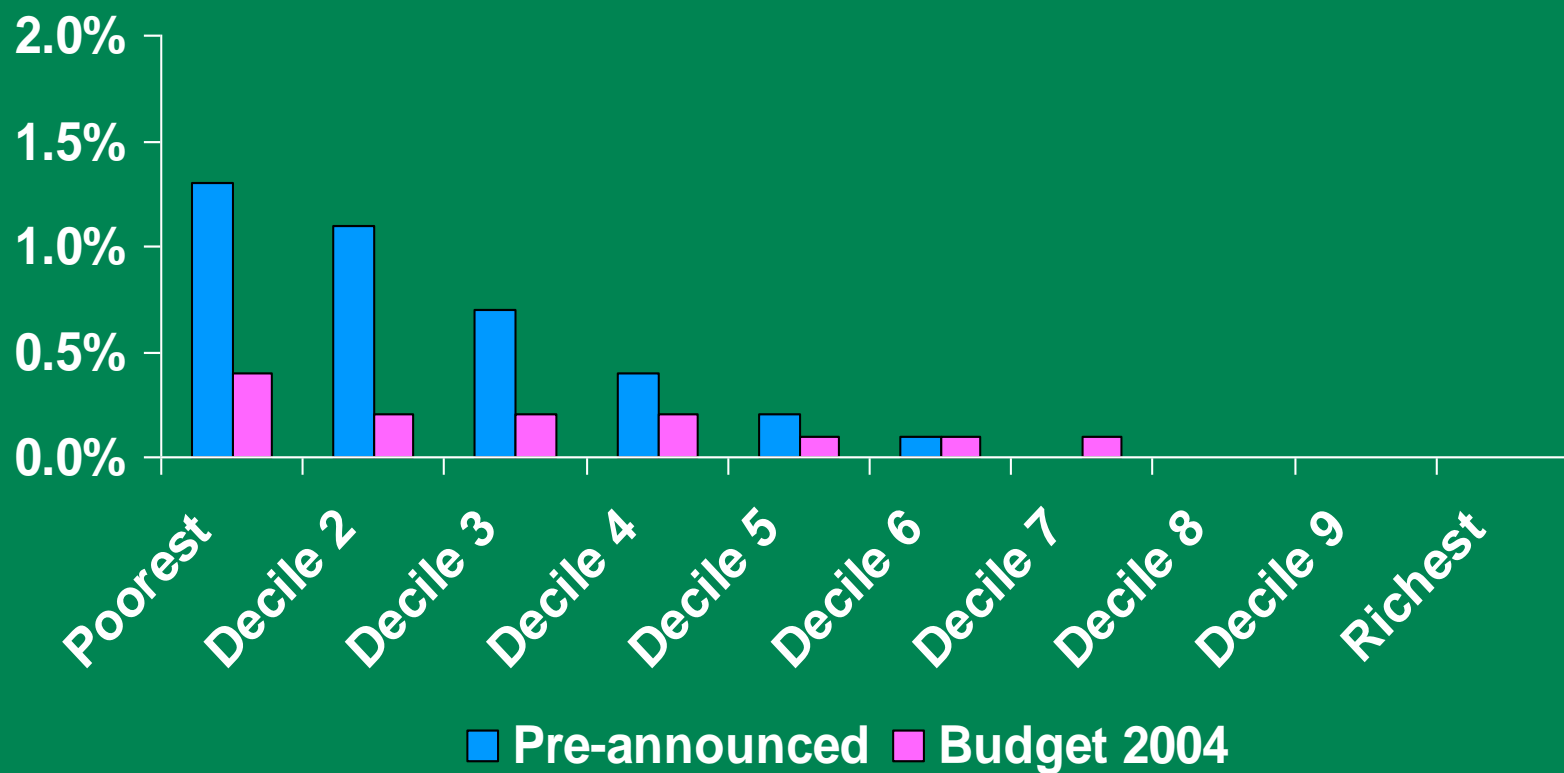
Implications for tax

- Increase in tax burden required to finance all of these spending plans if the golden rule is to be met looking forwards
- If Treasury revenue forecasts are right:
 - Revenues sufficient to finance Labour's plans
 - Lower spending would allow announcements of tax cuts
- If our forecasts are right:
 - Increase in revenues insufficient to finance Labour's plans
 - Increase is sufficient to finance Conservative's plans but announcements of tax cuts not initially possible
- Impossible to say for certain whether tax raising or cutting measures are necessary or possible

Distributional analysis

Robert Chote

% gains by income decile



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CT revenues and forecasts

