



# HM TREASURY

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21 May 2013

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Ref: 13/415

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## FREEDOM OF INFORMATION ACT 2000: Chancellor's Speech

Thank you for your Freedom of Information enquiry of April 15<sup>th</sup> 2013.

You asked for information covering two figures from a speech which the Chancellor made on the 2<sup>nd</sup> of April-

- "This month, 9 out of 10 working households will be better off as a result of the changes we are making"
- "And the average working household will be better off by over £300 a year."

You asked for information about a number of the details about how these figures were arrived at. Your questions will be dealt with in turn:

- ***The model which was used to calculate these figures.***

This figures were calculated using the Intra-Governmental Tax Benefit Model (IGOTM) which is a model written in the SAS computer program which simulates the rules of the tax and benefit system. This model works by applying these rules to data from annual household surveys such as the Living Costs and Food Survey which it uses to create a picture of the impact of taxes and benefits on households in the UK. This is the same model which is used to produce the distributional analysis published alongside each fiscal event.

We model and then compare household incomes under two tax and benefit policy worlds. In the instance of this particular piece of analysis these are:

- 1) the 2013-14 policy world without any of the Government's planned measures for April 2013 coming into effect
- 2) a 2013-14 policy world which includes those of the Government's measures coming into effect in April 2013 which we can model robustly.

This methodology, and the rules that govern which measures are included, is consistent with that used in the "Impacts on households: distributional analysis" published at Budget 2013.

By comparing household incomes in scenario 2 with incomes in scenario 1, we can create a picture of how Government policies coming into effect in April 2013 impact on households.

- ***What assumptions have been used to arrive at the figures quoted in the Chancellor's speech and what measures have been included.***

To estimate the impact of April 2013 policies on households we have compared household incomes in the 2013-14 financial year without these measures coming into effect against the 2013-14 financial year with these policies in effect. We have been able to include the following policies in our analysis:

- Increase the personal allowance by £1,115 above indexation with offsetting changes in the Basic Rate Limit
- Freeze age related allowances and restrict to existing beneficiaries
- 1% grant for a council tax freeze in 2013-14
- Postpone April 2013 fuel duty increase until September 2013
- Increase working age discretionary benefits and tax credits by 1%

We were unable to include a number of measures in this analysis because they cannot be modelled robustly:

- The benefit cap
- Reform the Disability allowance gateway
- Council Tax Benefit: 10 per cent reduction in expenditure and localisation
- Changing the additional tax rate to 45p
- Social sector: limit working age entitlements to reflect size of family from 2013-14

This methodology, and the rules that govern which measures are included, is consistent with that used in the "Impacts on households: distributional analysis" published at Budget 2013.

- ***Would being able to include these measures significantly change the number of working households gaining from the Government's measures in 2013-14?***

Even under the most extreme assumptions, including the measures mentioned above would not make any significant difference to the number of working households gaining from the Government's measures in 2013-14.

**How many working households are expected to benefit and how many are expected to lose out from each measure and by how much?**

Measure	Winning Households	Average annual gain 2013-14	Losing Households	Average annual loss 2013-14
Increasing the personal allowance by £1,115 above indexation	14.5m	£330	0.6m	-£310
Freezing age related allowances and restricting them to existing participants	-	-	0.35m	-£80
1% grant for councils to freeze their council tax in 2013-14	11.9m	£30	-	-
Increasing working age discretionary benefits and tax credits by 1%	-	-	4.3m	-£70
Postponing the planned fuel duty rise for April 2013 until September	11.8m	£20	-	-
Overall	14.2m	£340	1.7m	-£150

- The 600,000 households losing out from the increase to the personal allowance will be households where individuals are earning over £100,000 and so do not benefit from the personal allowance and lose out from the associated changes to the basic rate limit.
- Overall gains and losses are not a sum of gains and losses from individual measures. Households winning or losing from one specific measure will not be the same as those households winning or losing from another measure. There can also be expected to be some interactions between these measures.
- Modelling all of these measures together gives an estimate of about 14.2m working households gaining from these measures out of about 16m working households, which suggests that around 9 out of ten working households in the UK are better off as a result of these measures.
- **How many workless households and how many households overall are affected by these measures?**
  - It is estimated that about 700,000 non-working households will benefit from these measures by an average of about £170 in 2013-14. About 2.4m non-working households are estimated to lose out from these measures with an average loss of about £80 in 2013-14.

- Looking at the impact of these measures across all households in the UK, it is estimated that about 17M households will gain from these measures with an average gain of about £310 in 2013-14. Around 7M households are estimated to lose out from these measures with an average loss of about £90 in 2013-14.

If you have any queries about this letter, please contact me. It will be helpful to us if you remember to quote the reference number above in any future communications.



Nick Dippie  
Information Rights Unit

Your right to complain under the Freedom of Information Act 2000

If you are not happy with this reply, you may request a review by writing to HM Treasury, Information Rights Unit, 2/W1, 1 Horse Guards Road, London SW1A 2HQ.  
Email [FOI.responses@hmtreasury.gsi.gov.uk](mailto:FOI.responses@hmtreasury.gsi.gov.uk)

Any review request must be made within 2 months of the date of this letter.

It would assist our review if you set out which aspects of the reply concern you and why you are dissatisfied.

If you are not content with the outcome of your complaint, you may apply directly to the Information Commissioner for a decision. Generally, the ICO cannot make a decision unless you have exhausted the complaints procedure provided by HM Treasury. The Information Commissioner can be contacted at: The Information Commissioner's Office, Wycliffe House, Water Lane, Wilmslow, Cheshire SK9 5AF.