briefing

20 March 2013

Budget 2013

Introduction

On 20 March 2013, Chancellor George Osborne delivered his annual Budget. It built on his previous announcements made in the Autumn Statement (December 2013) and provided an update on the economy and future government plans for public sector spending and taxation. Full details and further information on the Budget can be found on the Treasury's website.[1]

Top issues for London Councils …

1. **Spending Round will be set out on 26th June**
2. **Local government exempt from further 1% budget reduction in 2013/14 but may fall by a further 1% in 2014-15 *(we are seeking clarification on this)***
3. **Public sector pay limited to 1% increase in 2015/16**
   - **Local government DEL to be adjusted in the Spending Round**
   - **Pay progression to end**
4. **Additional infrastructure investment of £3 billion a year from 2015-16**
5. **Adult Social Care – Dilnot reforms to be implemented a year earlier in 2016**
   - **Cap will be set to protect savings above £72k**
   - **threshold for means test on residential care to rise from £23k to £118k**
6. **Housing**
   - **£3.5bn to fund 'Help to Buy' scheme**
   - **'Mortgage Guarantee' scheme (guarantee for up to £130bn of mortgages)**
   - **Plans to build 15,000 more affordable homes**
   - **Plans to increase fivefold the funds available for building for Rent**
   - **Plans to extend the Right to Buy**
7. **Single tier state pension to begin in 2016-16 – public sector contributions to rise**
8. **Consultation launched on implementation of Richard Review on apprenticeships**

Overview

Today's Budget provided an update on the government's two primary economic rules:

1. That the government balance the cyclically-adjusted current budget over the coming five years and
2. That net debt will reduce as a share of the economy by 2015-16.

The independent Office for Budget Responsibility (OBR) has concluded that the government is 'on course' to meet the first fiscal mandate. However, on current projections the second rule will be missed by two years with debt not falling until 2017-18.

Public Sector Net Borrowing (PSNB): Borrowing to fund the deficit this year is set to come in at £114bn, £6bn below the target of £120bn for 2012/13 set in the March Budget. It is then expected to fall to £108bn in 2013/14, £97bn in 2014-15, £87bn in 2015/16, £61bn in 2016/17 and reach £42bn by 2017/18. Public sector net debt is forecast to peak at 85.6% of GDP in 2016/17, but is set to fall to 84.8% in 2017/18, higher than forecast in March 2012.

Economic Growth: Today's Budget includes the latest forecasts from the independent Office for Budget Responsibility, which has downgraded growth forecasts to 0.6% in 2013, 1.8% in 2014, 2.3% in 2015, 2.7% in 2016, 2.8% in 2017.

[1] http://www.hm-treasury.gov.uk/budget2013.htm

LONDON COUNCILS

Overview of the Budget

The full Budget Statement can be found on the Treasury's website[2]. Key extracts from the Chancellor's speech are set out below with points of particular interest for London local government in bold:

Economic and fiscal forecasts

The OBR expect the recovery to pick up to 1.8 per cent in 2014, 2.3 per cent in 2015, 2.7 per cent in 2016 and 2.8 per cent in 2017.

Compared to this time last year, the OBR now expect 600,000 more jobs in 2013 – and there will be 60,000 fewer people claiming unemployment benefit.

Mr Deputy Speaker, the deficit continues to come down. It falls to 6.8 per cent next year, 5.9 per cent in 2014-15. 5 per cent in 2015-16. Then 3.4 per cent the following year – reaching 2.2 per cent by 2017-18.

Borrowing then falls from £108 billion next year and falls again to £97 billion in 2014-15. Then £87 billion in the last year of this Parliament. Before falling again to £61 billion and £42 billion in the following two years.

We committed at the start of this Parliament to a fiscal mandate that said we would aim to balance the cyclically adjusted current budget over the following rolling five years.

I can confirm that the OBR says we are on course to meet our fiscal mandate – and meet it one year early.

However, the likelihood of meeting the supplementary debt target has deteriorated.

Public sector net debt is forecast to be 75.9 per cent of GDP this year. 79.2 per cent next year, and 82.6 per cent the year after. 85.1 per cent in 2015-16. 85.6 per cent in the year after. Before falling to 84.8 per cent in 2017-18.

The proportion of national income spent by the state has fallen from 47.4 per cent three years ago to 43.6 per cent today; and it's on course to reach 40.5 per cent at the end of the period.

Monetary Policy

I confirm today that the Asset Purchase Facility will remain in place for the coming year.

I am today setting out an updated remit for the Monetary Policy Committee. Alongside it, we're publishing a review of the monetary policy framework.

The updated remit reaffirms the inflation target as two per cent as measured by the twelve month increase in the Consumer Prices Index.

The new remit explicitly tasks the MPC with setting out clearly the trade-offs it has made in deciding how long it will be before inflation returns to target.

The new remit also… makes clear that the Committee may wish to issue explicit forward guidance, including using intermediate thresholds in order to influence expectations on the future path of interest rates.

So I am asking the MPC to provide an assessment of how intermediate thresholds might work in Britain, and to give that assessment in its August 2013 Inflation Report.

Fiscal policy

Mr Deputy Speaker, active monetary policy can only operate freely when securely anchored by credible fiscal policy.

And thanks to the tough financial control of my RHF the Chief Secretary, government departments are forecast to underspend their budgets by more than £11 billion this year.

Both next year and the year after, we will reduce resource departmental expenditure limits by the equivalent to **a 1 per cent reduction for most departments.**

The **schools and health budgets will remain protected** – because our promise to our NHS is a promise we will keep.

Local government and police allocations for 2013-14 have already been set out and will not be affected.

[2] http://www.hm-treasury.gov.uk/budget2013.htm

The Local government RDEL is protected in 2013-14, but may fall by 1% in 2014-15 (around £219m)*

*we are currently seeking clarification from government on this cut

As previously, the DfID budget will be adjusted to ensure we don't spend more than 0.7 per cent.

Mr Deputy Speaker, departmental budgets have yet to be set for the year 2015-16, which starts before the end of this Parliament.

This will done in the **Spending Round that will be set out on 26th June.**

I said last Autumn that we would require around £10 billion of savings for that Spending Round.

I confirm today that we will instead be seeking £11.5 billion of current savings.

Total Managed Expenditure for 2015-16 will be set at £745 billion.

Together, my RHFs the Chief Secretary and the Minister for the Cabinet Office have identified that a further £5 billion of savings in efficiency and cutting the cost of administration can be made.

Public Sector Pay

The Government will extend the restraint on public sector pay for a further year by limiting increases to **an average of up to 1 per cent in 2015-16.**

This will apply to the civil service and workforces with Pay Review Bodies.

Local government and devolved administration budgets will be adjusted accordingly in the Spending Round.

We will also seek substantial savings from what is called progression pay. These are the annual increases in the pay of some parts of the public sector.

We will exempt our military from changes to progression pay. We are also accepting in full from 1st May this year the Armed Forces Pay Review Body's recommended increase in the so-called X Factor payment made to military personnel to recognise the particular sacrifices they make.

AME Limit

We will now introduce a new limit on a significant proportion of Annually Managed Expenditure.

It will be set out in a way that allows the automatic stabilisers to operate – but will bring real control to areas of public spending that had been out of control.

We will set out how more detail on how this new spending limit will work at the Spending Round.

Infrastructure

By using our extra savings from government departments, we will boost our infrastructure plans by £3 billion a year from 2015-16.

That's £15 billion of extra capital spending over the next decade.

In June, we will set out long term spending plans for that long term capital budget.

I accept Michael Heseltine's excellent idea of a single competitive pot of funding for local enterprise.

I also fully endorse the report of Doug Richard to make the most our apprenticeships.

We're backing international successes like these with £1.6 billion of long-term funding for the industrial strategy the Business Secretary launched this week.

And today we build on our new tax reliefs coming in this year for the creative industries like high-end television and animation with new support for our world-class visual effects sector.

To help small firms, we'll increase by fivefold the value of government procurement budgets spent through the Small Business Research Initiative.

And we're putting new controls on what regulators can charge, and giving the Pensions Regulator a new requirement to have a regard for the growth prospects of employers.

Today, with the help of my HF the Energy Minister, we also announce our intention to take two major carbon capture and storage projects to the next stage of development.

We'll support the manufacture of ultra low emission vehicles in Britain with new tax incentives.

So we will exempt [the ceramics industry] from next year the industrial processes for that industry and some others from the Climate Change Levy.

And in the Spending Round we will provide support for energy intensive industries beyond 2015.

I am introducing a generous new tax regime, including a shale gas field allowance, to promote early investment.

And by the summer, new planning guidance will be available alongside specific proposals to allow local communities to benefit.

Business Tax

We're introducing capital gains tax relief for sales of businesses to their employees.

And we're going to double to £10,000 the size of the loans that employers can offer tax free to pay for items such as season tickets for commuters.

I have listened and we will introduce a new tax relief to encourage private investment in social enterprises.

I'm increasing the rate of the above the line R & D credit to 10 per cent.

Along with our new 10 per cent corporation tax rate on profits from patents coming in next month, this will help make us one of the most internationally attractive places to innovate.

I am abolishing altogether stamp duty on shares traded on growth markets such as AIM.

Here in Britain we've cut corporation tax from the 28 per cent we inherited to 21 per cent next year. But I want to go further.

So in April 2015 we will reduce the main rate of corporation tax by another 1 per cent.

Britain will have a 20 per cent rate of corporation tax – the lowest business tax of any major economy in the world.

As with previous reductions in the corporate tax rate, I do not intend to pass the benefit onto to the banking sector – so I will offset this reduction by increasing the Bank Levy rate next year to 0.142 per cent.

Tax Avoidance

Today, I am unveiling one of the largest ever packages of tax avoidance and evasion measures presented at a Budget. The details are set out in this Red Book.

They include agreements with the Isle of Man, Guernsey, and Jersey to bring in over a billion pounds of unpaid taxes.

This year we're giving Britain its first ever General Anti-Abuse Rule. And we will name and shame the promoters of tax avoidance.

Welfare

Child-care

So to the working parents struggling with the costs of childcare, and the mother wondering whether it makes financial sense to get a job, we offer this: Tax free childcare.

The plans were set out yesterday.

New tax-free childcare vouchers for working families: 20 per cent off the first £6,000 of your childcare costs for each child. And increased childcare support for those low income working families on universal credit.

Pensions

And for those who aspire to put aside money for their retirement: we offer a simple, flat rate pension accessible to everyone and worth £144 a week.

We're bringing forward the introduction of the new Single Tier Pension to 2016.

Private sector employers can adjust their pension benefits to accommodate the extra cost; **Public sector employers will have to absorb the burden, as is always the case with tax changes.**

Any spending review in the next Parliament will, of course, take the £3.3 billion cost into account.

As we have already made clear, public sector employees, and the relatively small number of private sector employees in defined benefit schemes, will from 2016 pay more national insurance than they do today.

So they will pay the same rate of national insurance as the rest of the working population, and in return, they will get a larger state pension than before.

Adults' social care

We've also made clear before that the extra £1.6 billion raised in employee national insurance will not be kept by the Treasury.

That's what our new cap will deliver – as Andrew Dilnot recommended. It'll also come in in 2016.

It will be set to protect savings above £72,000, and we'll raise the threshold for the means test on residential care from just over £23,000 to £118,000 that year too.

Home ownership

Today I can announce **Help to Buy.** Help to Buy has two components. First, we're going to commit £3.5 billion of capital spending over the next three years to shared equity loans.

From the beginning of next month, we will offer an equity loan worth up to 20 per cent of the value of a new build home – to anyone looking to move up the housing ladder.

You put down a five per cent deposit from your savings, and the government will loan you a further 20 per cent. The loan is interest free for the first five years. It is repaid when the home is sold.

Help is available to all buyers of newly built homes on all incomes. The only constraint will be that the home can't be worth more than £600,000 – but this covers well over 90 per cent of all homes.

We will offer a new **Mortgage Guarantee.** This will be available to lenders to help them provide more mortgages to people who can't afford a big deposit.

These guaranteed mortgages will be available to all homeowners, subject to the usual checks on responsible lending.

And we're offering guarantees sufficient to support £130 billion of mortgages. It will be available from start of 2014 – and run for three years.

In the Budget Book, we also set out more plans for housing:

- Plans to build 15,000 more affordable homes

- Plans to increase fivefold the funds available for building for Rent

- And plans to extend the Right to Buy so more tenants can buy their own home.

Duties

Today, I am cancelling this September's fuel duty increase altogether. Petrol will now be 13 pence per litre cheaper than if we had not acted over these last two years to freeze fuel duty.

I intend to maintain the planned rise for all alcohol duties – with the exception of beer.

We will now scrap the beer duty escalator altogether. And instead of the 3p rise in beer duty tax planned for this year I am cancelling it altogether. I'm going to go one step further and I am going to cut beer duty by 1p.

Personal Allowance

In two weeks time, the allowance will reach £9,440 with the single largest cash increase in its history.

In this Budget, the Government reconfirms its commitment to raising the personal allowance to £10,000. Today I can confirm we will get there next year.

From 2014, there will be no income tax at all on the first £10,000 of your salary.

Employment Allowance

I want to support jobs and the small businesses that create them. And I want to do it with a reforming tax cut – in fact it's the largest tax cut in the Budget.

To help create jobs and back small businesses in this country I am today creating the Employment Allowance. The Employment Allowance will work by taking the first two thousand pounds off the employer National Insurance bill of every company.

It's worth up to £2,000 to every business in the country. It will become available in April next year once the legislation is passed.

And we'll also make it available to charities and community sports clubs.

Appendix A – Reductions to departmental resource budgets

The Budget includes an additional 1% cut to departmental budgets in 2013/14 and 2014/15. The NHS, Schools and International Development budgets will continue to be protected, as will the police and local government budgets in 2013/14. This comes on top of the 1% cut for 2013/14 and 2% cut for 2014/15 announced in the Autumn Statement.

Table 2.4: Departmental Expenditure Limits

	£ billion		
	Estimate	Plans	
	2012-13	2013-14	2014-15
Departmental Programme and Administration Budgets (Resource DEL excluding depreciation[1])			
Education	51.4	53.1	53.8
NHS (Health)[2]	102.9	106.9	109.8
Transport	4.4	4.8	4.4
CLG Communities	1.4	2.0	1.3
CLG Local Government	24.0	23.9	21.7
Business, Innovation and Skills[3]	15.4	14.9	13.8
Home Office	7.9	8.0	7.4
Justice	8.1	7.2	6.8
Law Officers' Departments	0.6	0.6	0.5
Defence[4]	27.1	26.5	24.5
Foreign and Commonwealth Office	2.0	1.8	1.1
International Development	6.1	8.8	8.3
Energy and Climate Change	1.2	1.4	1.1
Environment, Food and Rural Affairs	1.9	1.9	1.7
Culture, Media and Sport[5]	1.9	1.2	1.1
Work and Pensions	7.1	7.6	7.4
Scotland	25.0	25.3	25.3
Wales	13.3	13.5	13.5
Northern Ireland	9.5	9.5	9.5
Chancellor's Departments	3.3	3.7	3.5
Cabinet Office	2.1	2.1	2.3
Small and Independent Bodies	1.4	1.5	1.4
Reserve	0.0	2.2	2.8
Special Reserve	0.0	0.4	1.8
Adjustment for Budget Exchange[6]	0.0	-1.7	-1.2
Green Investment Bank	0.0	1.0	0.0
Total Resource DEL excluding depreciation	**317.8**	**328.3**	**323.6**
Adjustment for DEL/AME switches[7]	*0.0*	*-6.4*	*-6.9*
OBR Allowance for Shortfall	*-0.3*	*-1.2*	*-1.0*
OBR Resource DEL excluding depreciation forecast	***317.6***	***320.7***	***315.7***

Source: Budget 2013 (Table 2.4 - p.69)

Appendix B – Public spending reductions to 2017/18

Today's Budget shows overall Resource DEL (including depreciation) decreasing by -0.9% in 2015/16 before reducing by -2.0% in 2016/17 and -2.5% in 2017/18. This is worse than forecast in the 2012 Autumn Statement (see Figures 1 and 2 below).

Table 2.3: Total Managed Expenditure[1]

	£ billion					
			Forecasts			
	2012-13[2]	2013-14	2014-15	2015-16	2016-17	2017-18
CURRENT EXPENDITURE						
Resource AME	317.4	334.1	345.1	362.3	378.5	396.1
Resource DEL excluding depreciation	317.6	320.7	315.7			
Ring-fenced depreciation	22.2	18.1	19.3			
Implied Resource DEL, including depreciation				*331.9*	*325.1*	*316.9*
Public sector current expenditure	**657.2**	**672.9**	**680.0**	**694.2**	**703.7**	**713.0**
CAPITAL EXPENDITURE						
Capital AME[2]	-20.0	5.0	5.5	6.3	8.6	9.2
Capital DEL	36.1	42.2	44.9			
Implied Capital DEL[3]				*44.2*	*42.7*	*42.9*
Public sector gross investment	**16.1**	**47.2**	**50.4**	**50.4**	**51.3**	**52.1**
Total Managed Expenditure	**673.3**	**720.0**	**730.4**	**744.7**	**754.9**	**765.1**
Total Managed Expenditure (% GDP)	*43.6%[2]*	*45.2%*	*44.0%*	*43.1%*	*41.8%*	*40.5%*
Envelope for 2015-16 Spending Round				***744.7***		
of which						
Current spending envelope				*694.2*		
Capital spending envelope				*50.4*		
Memo: TME baseline for years beyond 2014-15[4]			*735.9*	*744.7*	*754.9*	*765.1*
Average annual real growth	*SR10 period*		*-0.4%*	*Beyond SR10 period:*		*-0.4%*

[1] Budgeting totals are shown net of the OBR's forecast Allowance for Shortfall. Resource DEL excluding ring-fenced depreciation is the Treasury's primary control within resource budgets and is the basis on which Spending Review 2010 settlements were agreed. The OBR publishes public sector current expenditure in DEL and AME, and public sector gross investment in DEL and AME. A reconciliation is published by the OBR.

[2] In 2012-13, TME is temporarily reduced by a £28 billion effect on public sector net investment resulting from the transfer of assets from the Royal Mail Pension Plan to the public sector. For budgeting purposes, income from this transaction is treated as Capital AME. Excluding the effect of Royal Mail TME would be 45.4 per cent of GDP.

[3] Implied Capital DEL reduces in 2016-17 as measures set out in table 2.6 come to an end. This does not affect the public sector gross investment forecast as it is offset by a corresponding adjustment to the Capital AME forecast.

[4] TME is lower in the baseline for calculating the assumption for the years beyond 2014-15 as a result of excluding the effect of all measures announced at Budget 2013 and Autumn Statement 2012, capital measures announced at Autumn Statement 2011, and the OBR's Allowance for Shortfall forecast.

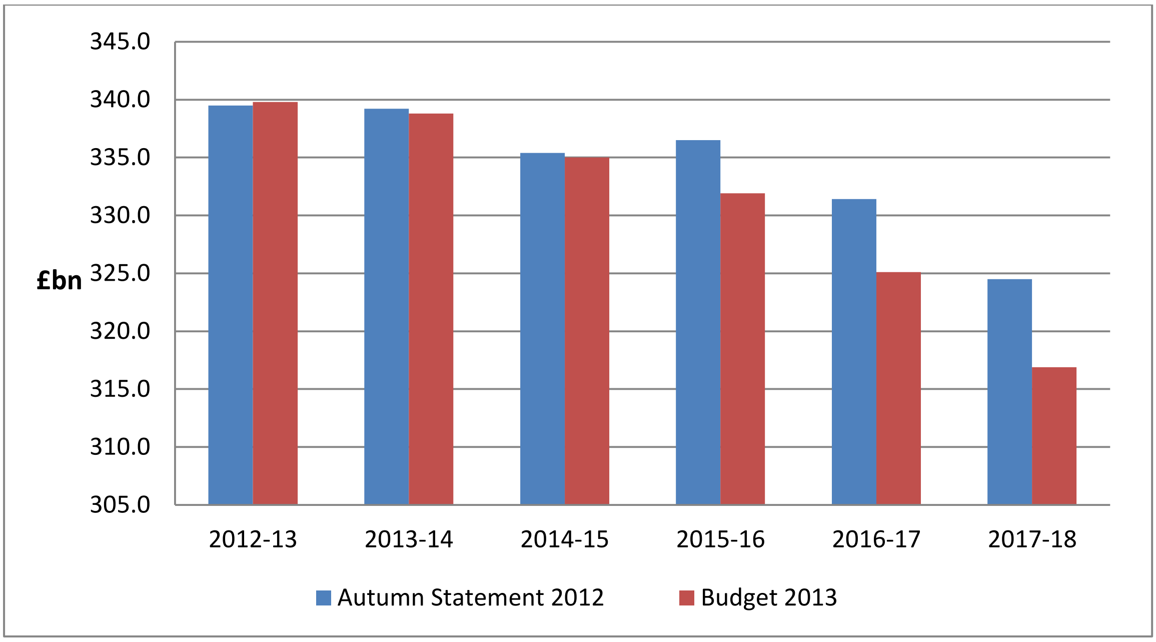
Source: Budget 2013 (Table 2.3 - p.68)

Table 1 – Government RDEL 2012-13 to 2017-18

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Autumn Statement 2012	339.5	339.2	335.4	336.5	331.4	324.5
% change	*-0.4%*	*-0.1%*	*-1.1%*	*0.3%*	*-1.5%*	*-2.1%*
Budget 2013	339.8	338.8	335.0	331.9	325.1	316.9
% change	*-0.3%*	*-0.3%*	*-1.1%*	*-0.9%*	*-2.0%*	*-2.5%*

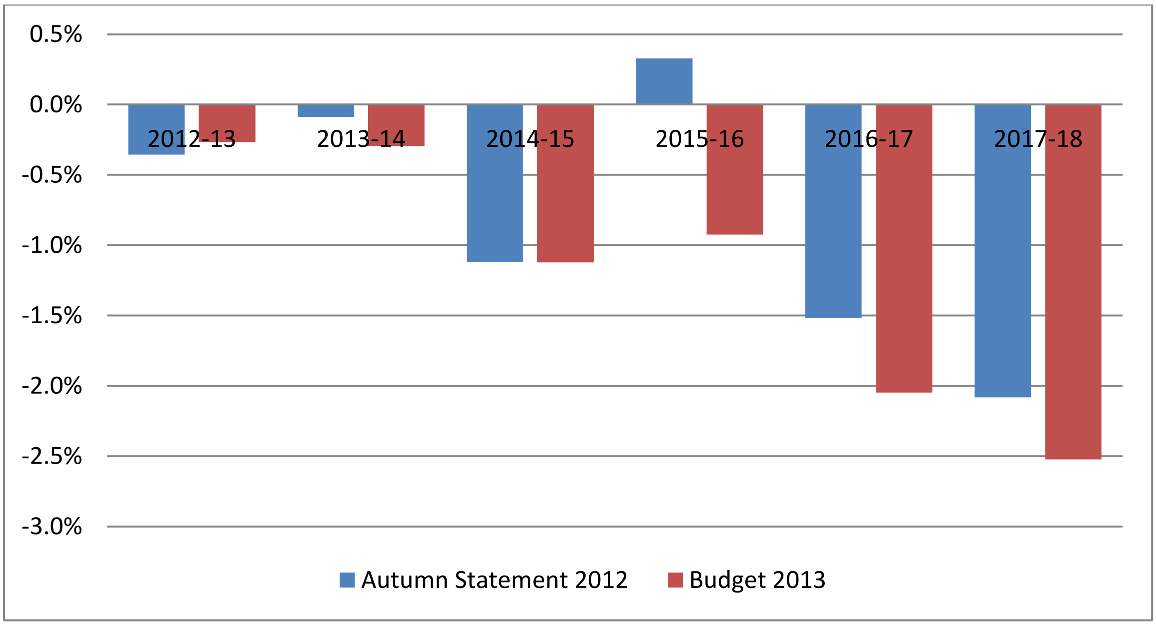
Source: Budget 2013

Figure 1 – Government RDEL 2012-13 to 2017-18



Source: Budget 2013

Figure 2 – Percentage change in government RDEL 2012-13 to 2017-18



Source: 2013 Budget