Summary of the 2013 Budget

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Section Economic Policy and Statistics Section

This note sets out the main measures announced in the 2013 Budget, presented by the Chancellor on 20 March 2013. It also includes the Office for Budget Responsibility's updated forecasts for the economy and public finances.

The background to the Budget is set out in a separate Library note. The Library has also published a special Budget edition of the Economic Indicators Research Paper.

Contents

1 The Budget at a glance

- **Income tax personal allowance:** raised to £10,000 from 2014/15, meeting the Government's objective a year early.

- **Corporation tax**: additional 1 percentage point cut to 20% from April 2015. Main rate of corporation tax and small profits rate to be unified.

- **Employer Allowance:** from April 2014, all businesses and charities will be entitled to a £2,000 Employer Allowance to reduce their employer's national insurance bill.

- **Fuel duty:** cancellation of September's planned increase.

- **Beer duty:** reduction of 2% this year and cancellation of next year's duty escalator.

- **Departmental spending**: Resource DEL cut by £1.1 billion in 2013/14 and £1.2 billion in 2014/15 – equivalent to a 1% cut for most departments. Schools and health budgets will remain protected.

- **Home ownership:** support through the Help to Buy Scheme which offers an equity loan to help those who wish to buy a new build home and a government guarantee to encourage the availability of mortgages on all homes. Both schemes apply to homes worth up to £600,000.

- **Childcare:** a new tax-free childcare scheme which will provide up to £1,200 per child where all parents in a family are working, the family is not receiving tax credits and no parent earns more than £150,000.

- **Bank of England remit:** the 2% inflation target has been reaffirmed as usual but the remit has been extended to allow the Bank to do more to boost the economy.

- **Growth forecasts:** forecast for 2013 halved to 0.6%. Growth in 2014 now forecast to be 1.8% (previously, 2.0%). Forecast for growth in 2015, 2016 and 2017 unchanged at 2.3%, 2.7% and 2.8% respectively. The OBR forecasts growth of 0.1% in Q1 2013 which would mean no triple dip recession.

- **Inflation:** forecast to be 2.8% in 2013 and 2.4% in 2014, up from 2.5% and 2.2% in the Autumn Statement.

- **Employment:** forecast to increase from 29.8 million in 2013 to 30.5 million in 2017, a slight upward revision from the Autumn Statement

- **Unemployment:** forecast to fall from 7.9% in 2013 to 6.9% in 2017, a slight downward revision from the Autumn Statement.

- **Budget deficit:** assessing trends in public borrowing is complicated by a number of special factors. The Government claim borrowing fell in 2012/13. This is true on some measures but other measures of borrowing show it is essentially flat.

- **Government debt:** forecasts have been revised upwards. Debt now reaches a peak of 85.6% of GDP in 2016/17.

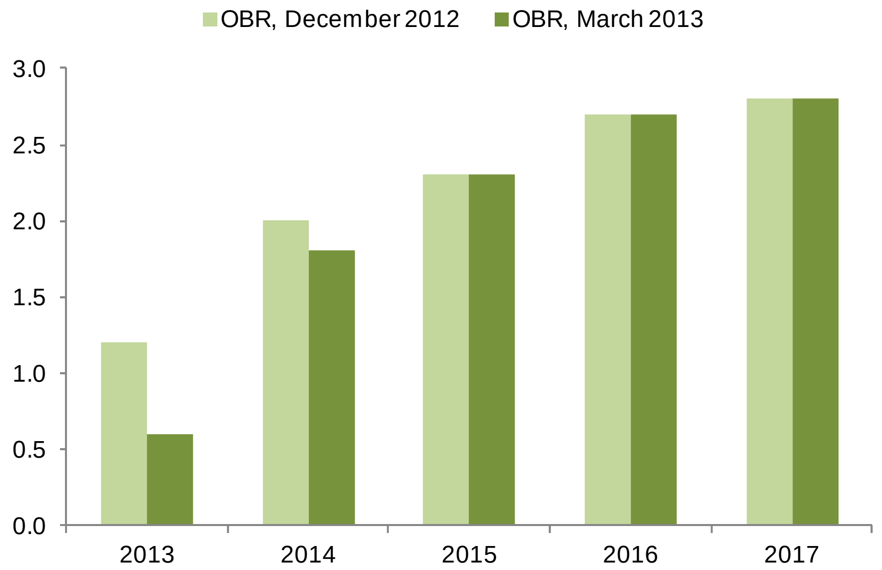
- **Fiscal mandate:** the fiscal mandate is still met. The supplementary debt rule, which was broken in the Autumn Statement, now looks even harder to meet.

2 OBR forecasts for the economy and the public finances

2.1 GDP growth and inflation

The OBR is now forecasting growth of just 0.6% in 2013, down from 1.2% forecast in the Autumn Statement. The forecast for 2014 has also been revised down to 1.8% from 2.0%. The forecasts for 2015-2017 are unchanged compared with the Autumn Statement.

GDP growth: OBR forecasts
Annual % change, real terms



OBR forecasts: GDP growth (%)

	2013	2014	2015	2016	2017
December 2012	1.2	2.0	2.3	2.7	2.8
March 2013	0.6	1.8	2.3	2.7	2.8

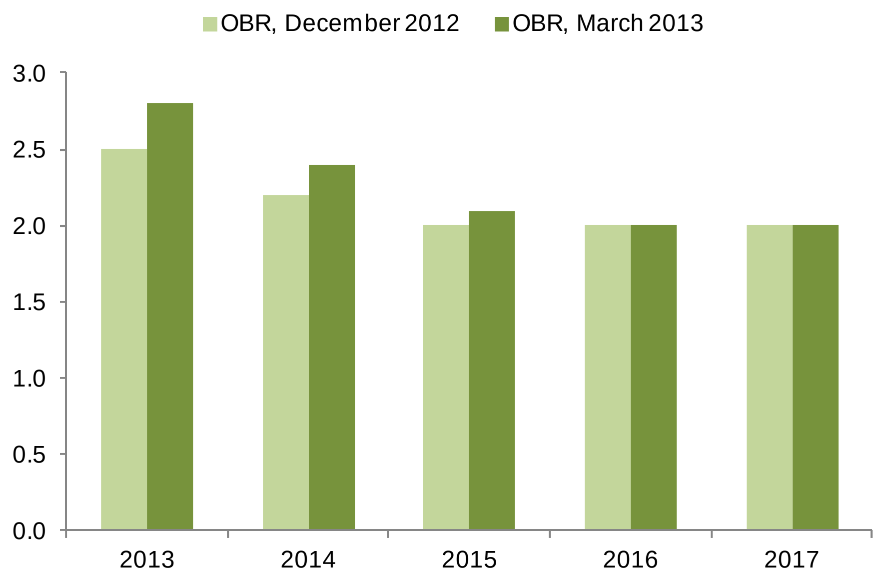
The economy contracted by 0.3% in Q4 2012. This means that there would be a triple dip recession if output fell in Q1 2013. The OBR forecast growth of 0.1% in Q1, meaning a triple dip would be avoided but only by a narrow margin.

On inflation, the OBR has revised its forecasts up slightly compared with the Autumn Statement. Inflation is forecast to be 2.8% in 2013, up from the previous forecast of 2.5%. In 2014, inflation is now forecast to be 2.4%, up from 2.2%

OBR forecasts: CPI inflation (%)

	2013	2014	2015	2016	2017
December 2012	2.5	2.2	2.0	2.0	2.0
March 2013	2.8	2.4	2.1	2.0	2.0

Inflation: OBR forecasts
Annual % change, CPI

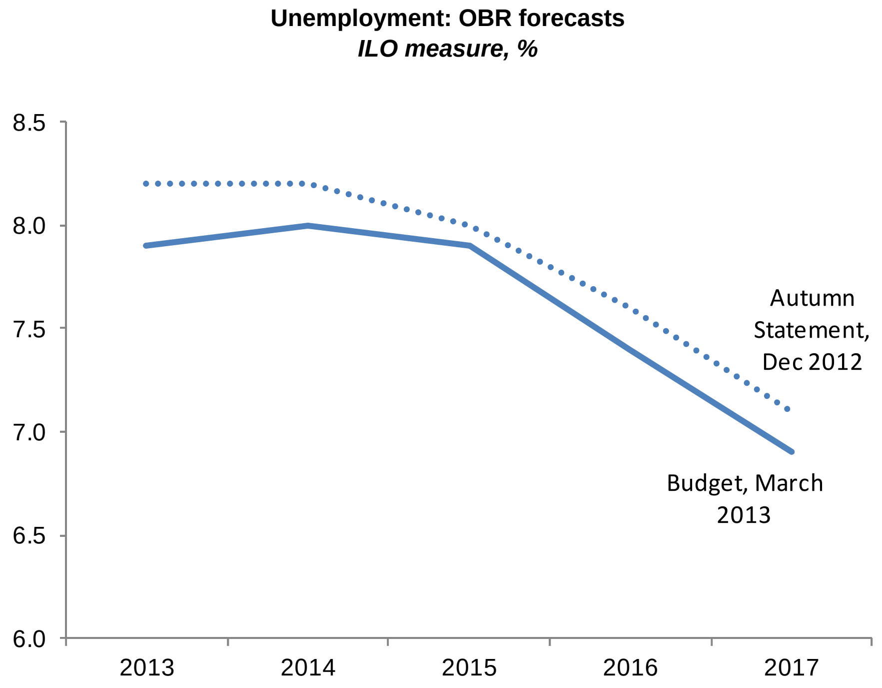


2.2 Employment and unemployment

Employment is forecast to be 29.8 million in 2013 rising to 30.5 million in 2017. These forecasts are marginally higher than those in the Autumn Statement. The OBR's forecasts for unemployment are marginally lower than those in the Autumn Statement. Unemployment in 2013 is now forecast to be 7.9% compared with 8.2% in the Autumn Statement. The unemployment rate is forecast to remain at around 8% until 2015 and then fall to 6.9% in 2017.

OBR forecasts: employment and unemployment

	2013	2014	2015	2016	2017
Employment, millions					
December 2012	29.6	29.7	29.9	30.2	30.4
March 2013	29.8	29.9	30.1	30.3	30.5
ILO unemployment, %					
December 2012	8.2	8.2	8.0	7.6	7.1
March 2013	7.9	8.0	7.9	7.4	6.9
Claimant count, millions					
December 2012	1.66	1.69	1.63	1.53	1.43
March 2013	1.58	1.63	1.59	1.48	1.38



2.3 Public finances and the fiscal mandate

The Chancellor claimed that the budget deficit had fallen by a third under the Coalition. This is broadly true when measured as a share of GDP. It has fallen from 11.2% in 2009/10 to 7.8% in 2012/13. However, in cash terms, the fall is nearer a quarter: from £158.9 billion to £120.9 billion.[1]

There was also interest in whether borrowing would fall this year. Assessing the underlying trends in borrowing is difficult because a number of special factors affect borrowing.[2] If only the Royal Mail pension scheme is excluded, borrowing is clearly on a downward path. If, however, the payments relating to quantitative easing are also excluded, borrowing is essentially unchanged between 2011/12 and 2013/14.

Public sector net borrowing **£ billion**

	Excl Royal Mail	Excl Royal Mail and QE
2011/12	121.0	121.0
2012/13	114.5	120.9
2013/14	107.7	119.8
2014/15	97.3	108.4
2015/16	87.1	95.5
2016/17	60.8	67.0
2017/18	42.0	42.7

Sources: OBR, EFO, March 2013, Table 4.36

1 The figures are in cash terms – ie unadjusted for inflation. If they are converted into real terms, the fall in the deficit is greater. These figures exclude Royal Mail and QE in 2012/13.

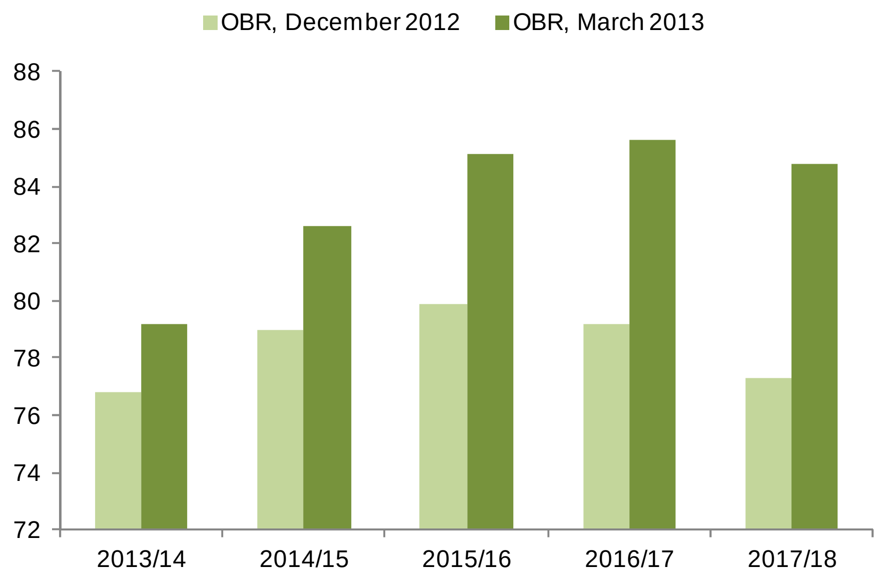
2 The OBR's report presents five different measures of borrowing (see Table 4.36 p160). Borrowing falls in four of these cases in 2012/13 but increases in one.

Forecasts of government debt were revised up in the Budget. Debt is now forecast to exceed 80% of GDP: reaching a peak of 85.6% in 2016/17.

Public sector net debt, % of GDP

	2013/14	2014/15	2015/16	2016/17	2017/18
December 2012	76.8	79.0	79.9	79.2	77.3
March 2013	79.2	82.6	85.1	85.6	84.8

Public sector net debt: OBR forecasts
% of GDP



The fiscal mandate requires the cyclically-adjusted current deficit to be in balance by 2017/18. On the basis of the OBR's forecasts, the fiscal mandate is met a year early. The supplementary target requires public sector net debt to fall as a share of GDP at the fixed date of 2015/16. The Autumn Statement forecast showed that this target would be missed by a year. The OBR's Budget forecasts show that the debt target will now be missed by two years as debt does not fall until 2017/18.

3 Budget measures

This section summarises some of the main announcements in the Budget. It is not an exhaustive list.

3.1 Income tax

The Budget announced that the personal allowance will rise to £10,000 from 2014/15, meeting the commitment in the Coalition Agreement a year early. This is a real terms increase of £240 on the 2013/14 level of £9,440 and costs £1.1 billion. This will benefit 24.5 million people in 2014/15. The Budget says that as a result of the Government's policies 2.7 million people under 65 will have been lifted out of income tax. The increase announced for 2014/15 takes around a quarter of a million people out of income tax.

The 40% tax rate will start being paid at £41,450 in 2013/14. This will increase by 1% in cash terms to £41,865 in 2014/15. This is a cut in real terms and means more people will pay tax at 40% than if the allowances and thresholds had increased in line with inflation.

3.2 Corporation tax

The main rate of corporation tax will be cut by a further one percentage point in April 2015 to 20%. The Government will unify the small profits rate and the main rate of corporation tax. This measure costs £865 million in 2017/18. The Bank Levy is increased to 0.142% from 1 January 2014 to offset the benefits to the banking sector of the cut in corporation tax.

3.3 New Employment Allowance

All businesses and charities will be entitled to a £2,000 reduction in their employer's national insurance bill from April 2014. The Government estimate that up to 1.25 million employers will gain. Over 90% of the benefit will go to small firms and 450,000 small businesses will no longer pay employer's national insurance. This policy will cost £1.3 billion in 2014/15 rising to £1.7 billion in 2017/18.

3.4 Excise duties

The 1.89p per litre increase in **fuel duty**, planned for September, has been cancelled. This costs £480 million in 2013/14 rising to £810 million in 2014/15.

Beer duty will be cut by 2% from 25 March 2013. The beer duty escalator for next year will be cancelled and duty will increase by inflation only. These measures will cost £170 million in 2013/14 and around £200 million a year thereafter. **Wine, spirits and cider duties** will increase by 2% over RPI from 25 March 2013.

3.5 Spending in 2013/14 and 2014/15

Departmental spending (Resource DEL[3]) will be cut by £1.1 billion in 2013/14 and £1.2 billion in 2014/15 – equivalent to a 1% cut for most departments. Schools and health budgets will remain protected and local government and police allocations which have been set for 2013/14 will not be altered.

3.6 Bank of England remit

The Chancellor is required to set out the Bank of England's remit at each Budget. In the past, this has been something of a formality with the Bank's 2% inflation target being reconfirmed each year. This year's Budget again confirmed the 2% inflation target but

[3] Departmental Expenditure Limits

included some additional comments on the remit, widely regarded as allowing the Bank to do more to boost the economy.[4] In particular, the remit now makes it clear that, in exceptional circumstances, the Bank's Monetary Policy Committee (MPC) may be faced with a short-term trade-off between inflation and growth. The remit now requires that the MPC promote understanding of this trade-off. The remit also requests the MPC to assess the merits of using intermediate thresholds and to report on this in its August *Inflation Report.* Intermediate thresholds link policy to future economic developments, such as committing to low interest rates until the economic recovery reaches a defined point.

3.7 Single tier state pension

The Budget confirmed that the single-tier State Pension will begin in 2016/17. It also confirmed that members of a defined benefit occupational pension scheme will no longer be able to "contract out" of the State Second Pension from 2016/17. As a result, these individuals and their employers will no longer be able to pay a lower rate of national insurance. This change raises considerable sums of money: £5.4 billion in 2017/18. The Government has said that the additional employee and private sector employer national insurance will not be used as a net revenue raising measure.

3.8 Support for home ownership

The Government announced a package of measures entitled Help to Buy. This consists of two elements:

- **Help to Buy: equity loan**. This will provide an equity loan worth up to 20% of the value of a new build home. This policy covers houses worth up to £600,000 and is open to all buyers, not just first time buyers. This programme will run for three years from April 2013.

- **Help to Buy: mortgage guarantee**. This will offer a government guarantee to lenders who offer mortgages to those with a deposit of 5 – 20%. The policy will be available to existing homeowners as well as first time buyers and apply to both new and existing homes worth up to £600,000. This policy will make available up to £12 billion of government guarantees - enough to support £130 billion of mortgages and will run for three years from January 2014.

3.9 Support for childcare

The Budget contained details of a new Tax-Free Childcare Scheme under which the Government will provide 20% of working families' childcare costs up to a maximum of £1,200 per child.[5] The scheme will be open to couples where both are working, and lone parents in work, provided the family does not receive support from tax credits (or the new Universal Credit), and no parent earns more than £150,000. The new scheme will be available from autumn 2015 and will be partly funded by the withdrawal of the existing Employer Supported Childcare scheme. In the first year of operation, children under five will be eligible rolling out over time to children under 12. Disabled children up to 16 will also be eligible as under the existing scheme. The Budget also announced an extra £200 million to increase childcare support though Universal Credit.

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[4] The remit is set out in a letter from the Chancellor to the Governor of the Bank, 20 March 2013

[5] The Treasury provided some details of this policy in a press release on the day before the Budget. HM Treasury Press Notice, *New scheme to bring tax-free childcare for 2.5 million working families*, 19 March 2013