Executive Summary

The Government's objective is to equip the UK to succeed in the global race, build a stronger economy and a fairer society and to support aspiration. This Budget will help those who aspire to work hard and get on, care for their families, buy a home, start or grow a business and save for retirement.

The UK economy is recovering from the biggest financial crisis in generations, one of the deepest recessions of any major economy and a decade of growth built on unsustainable levels of debt. The Government's plan for the economy, first set out in June Budget 2010, is based on:

- fiscal responsibility to deal with our debts with a credible deficit reduction plan;
- monetary activism to support demand and keep interest rates low; and
- supply-side reform to help businesses create jobs and deliver lasting prosperity.

Where resources allow, the Government is committed to keeping costs down for families to help with the cost of living.

This Budget builds on the progress that has been made in challenging circumstances, with further action on each element of the Government's plan:

- the deficit as a share of GDP is forecast to fall by a third over the three years from 2009-10 and interest rates are near record lows. **Budget 2013 announces further detail on the Government's deficit reduction plans, new steps to ensure active monetary policy continues to play a full role in supporting the economy with an updated remit for the Monetary Policy Committee (MPC), and further measures to ease the long-term pressure on the public finances;**
- employment is at record levels, exceeding the pre-crisis peak, and the UK is now eighth in the World Economic Forum Global Competitiveness Report. **Budget 2013 sets out further reforms to help businesses create jobs, help people buy their own home and give Britain the lowest corporation tax rate in the G20;** and
- the Government's reforms to the personal tax system will have lifted 2.4 million low income workers out of tax altogether by April 2013. **Budget 2013 announces further actions to ease the cost of living, help people plan for retirement and deliver on the Government's ambition to make the first £10,000 of income free from income tax.**

This Budget sets out these and other reforms under the themes of: the economy and public finances, growth and fairness.

The economy and public finances

Three key factors, first set out in the Office for Budget Responsibility's (OBR) November 2011 *Economic and fiscal outlook*, have resulted in a more subdued and uneven recovery than expected:

- evidence has accumulated that suggests the impact of the financial crisis on GDP and underlying productivity has been greater than expected;
- the euro area sovereign debt crisis and global uncertainty have damaged confidence and reduced external demand; and
- commodity price driven inflation since 2011 has reduced real incomes and raised business costs.

As a result of the ongoing effect of these factors, the OBR's forecast revises down growth in 2013 and 2014. However, the forecast for UK employment from 2013 has been revised up.

Economic forecast

GDP growth in 2012 was slightly stronger than expected at Autumn Statement 2012. However, reflecting the lower than expected momentum in the final quarter of 2012 and smaller contributions to growth from net trade and consumption, **the OBR has revised its forecast for GDP growth in 2013 from 1.2 per cent to 0.6 per cent and from 2.0 per cent to 1.8 per cent for 2014.** The OBR's forecast for GDP growth from 2015 onwards is unchanged from its forecast at Autumn Statement 2012.

The OBR expects employment to rise in every year of the forecast period reaching 30.5 million by 2017. Total market sector employment is expected to rise by around 2.6 million between the start of 2011 and the start of 2018. The OBR has revised down its unemployment forecast by 0.3 percentage points to 7.9 per cent in 2013 and by 0.2 percentage points in 2017 to 6.9 per cent.

The OBR has revised its inflation forecast up slightly. The OBR attributes this to higher oil prices and higher import prices but expects it to return to target by early 2016.

Fiscal forecast

Public sector net borrowing is forecast to fall by a third over the three years from 2009-10, from its post-war peak of 11.2 per cent of GDP, to 7.4 per cent of GDP in 2012-13.[1] It is then forecast to continue to fall to 5.0 per cent of GDP in 2015-16 and 2.2 per cent of GDP in 2017-18.

Public sector net debt as a share of GDP is forecast to peak at 85.6 per cent of GDP in 2016-17, before falling to 84.8 per cent of GDP in 2017-18.

The Government's response

Monetary policy has a critical role to play in supporting the economy as the Government delivers on its commitment to necessary fiscal consolidation. To ensure that it can continue to play that role fully, **the Government has reviewed the monetary policy framework in international and historical context and the *Review of the monetary policy framework* is published alongside this Budget. As a result, the Government has: retained a flexible inflation targeting framework and reaffirmed the 2 per cent inflation target, which applies at all times; updated the remit to clarify the trade-offs that are involved in setting monetary policy to meet a forward-looking inflation target; and has requested that the MPC provides in its August 2013 *Inflation Report* an assessment of the merits of using intermediate thresholds in the operation and communication of monetary policy.**

[1] This excludes the effect on public sector net investment in 2012-13 of transferring assets from the Royal Mail Pension Plan to the public sector.

Public spending control is central to the Government's commitment to reduce the deficit. Departments have consistently underspent against plans, by an average of £4.0 billion over the last three years. Faster progress in delivering savings, combined with improvements to spending control, mean that departmental underspends in 2012-13 are higher than usual at £11.5 billion. Building on this lower level of spending, **Budget 2013 announces a reduction in resource Departmental Expenditure Limits (DEL) by £1.1 billion in 2013-14 and £1.2 billion in 2014-15.** In the short term, these funds will be used to help support housing. The schools and health budgets remain unchanged.

In addition this Budget:

- **fixes the envelope for Total Managed Expenditure (TME) for 2015-16.** Individual departmental budgets will be published in a Spending Round on 26 June 2013. **Health, schools and Official Development Assistance will be protected;**
- announces that **public sector pay awards in 2015-16 will be limited to an average of up to 1 per cent;**
- **confirms the path of future fiscal consolidation, expressed as an assumption that TME in 2016-17 and 2017-18 will continue to fall at the same rate as over the Spending Review 2010 period;** and
- **announces that the Government will strengthen the public spending framework by introducing a firm limit on a significant proportion of Annually Managed Expenditure (AME), including areas of welfare expenditure.** This will be designed in a way that allows the automatic stabilisers to operate to support the economy.

Including all measures set out in this Budget, **the OBR's March 2013 *Economic and fiscal outlook* concludes that the Government remains on course to meet the fiscal mandate a year early.** The OBR has forecast that **public sector net debt as a percentage of GDP will be falling in 2017-18, two years later than set out in the supplementary debt target.**

The Government's judgement is that significant changes to the path of consolidation in the short term would constrain the automatic stabilisers, limiting their ability to support the economy. **Budget 2013 is therefore fiscally neutral and reinforces the Government's commitment to deficit reduction.**

The first section of Chapter 1 sets out the Government's economic and fiscal plans in more detail.

Growth

The Government is delivering an ambitious programme of supply-side reform to equip the UK to succeed in the global race and to support aspiration. Budget 2013 sets out further action the Government will take to help UK businesses create jobs and to help people buy their own home.

The Government will:

- make the UK tax system the most competitive in the G20 by **reducing the main rate of corporation tax by an additional 1 percentage point in April 2015, so it reaches 20 per cent,** the joint lowest level in the G20;
- **from April 2014, give businesses and charities an entitlement to a £2,000 Employment Allowance per year towards their employer National Insurance contributions (NICs) bill.** This will particularly help small businesses who want to hire their first employee or expand their workforce;

- **increase capital spending plans by £3 billion a year from 2015-16, to lock in recent increases in capital spending over the Spending Review 2010 period, funded through reductions in current spending.** As a result, public investment as a share of GDP will be higher on average over this Parliament and the next Parliament collectively than it was under the previous government. The Government will also set out long-term plans to 2020-21 for the most economically valuable areas of capital expenditure in the 2015-16 Spending Round;
- **provide £1.6 billion of funding to support strategies in 11 key sectors as part of its industrial strategy. From this fund the Government, in partnership with industry, will create an Aerospace Technology Institute, which will provide a total of £2.1 billion of research and development support over seven years, with the Government and industry contributing equal shares;**
- **take forward Lord Heseltine's recommendation on the creation of a Single Local Growth Fund, devolved to the local level through new Local Growth Deals.** The Fund will be operational by April 2015; and
- introduce a package of support for the UK shale gas industry including **introducing a new shale gas field allowance and extending the ring fence expenditure supplement from six to ten years for shale gas projects,** to promote investment in the industry at an early stage of its development.

This Budget also announces major reforms, including over £5.4 billion of financial support, to tackle long-term problems in the housing market and to support those who want to get on or move up the housing ladder. The Government will:

- introduce a major new housing scheme, Help to Buy, with two key elements. First, **from April 2013, the Government will extend First Buy to all those who aspire to own a new build home. The Government will provide an equity loan worth up to 20 per cent of the value of a new build home, repayable once the home is sold, and significantly widen the eligibility criteria to ensure as many people as possible are able to benefit, including increasing the maximum home value to £600,000 and removing the income cap constraint. Second, the Government will create a mortgage guarantee for lenders who offer mortgages to people with a deposit of between 5 per cent and 20 per cent on homes with a value of up to £600,000.** This will increase the availability of mortgages on new or existing properties for those with small deposits;
- give more social tenants the opportunity of home ownership by **reducing the qualifying period for Right to Buy from five years to three years and raising the maximum discount cash cap in London to £100,000;** and
- invest in new affordable homes by **doubling the existing affordable homes guarantee programme, providing up to an additional £225 million to support a further 15,000 affordable homes in England by 2015.**

The second section of Chapter 1 sets out further detail on these and other announcements.

Fairness

The Government's economic and fiscal strategy is underpinned by its commitment to fairness and its desire to support those who want to work hard and get on. Budget 2013 announces policies to make the tax and welfare system fairer, to support aspiration and to keep costs down for households and businesses.

The Government will:

- **meet its commitment to make the first £10,000 of income free from income tax a year ahead of schedule: the personal allowance will be increased by £560 to £10,000 in 2014-15.** By April 2014, 2.7 million low income individuals under 65 will have been lifted out of income tax altogether and from April 2014 the typical basic rate taxpayer will pay £705 less income tax a year in cash terms as a result of this Government's actions;
- **cancel the fuel duty increase that was planned for 1 September 2013 to support households and businesses.** This will mean that fuel duty will have been frozen for nearly three and a half years, the longest duty freeze for over 20 years. From April 2013, pump prices will be 13 pence per litre lower than under the previous government's plans;
- **introduce a new Tax-Free Childcare Scheme. The Government will support working families with 20 per cent of their childcare costs up to £1,200 per child per year.** This new system will be phased in from autumn 2015, over time replacing the existing system of Employer Supported Childcare (ESC). At the point the new offer is introduced, existing members of ESC can choose to remain in that scheme. In addition, **the Government will increase childcare support within Universal Credit,** to improve work incentives and ensure that it is worthwhile to work up to full-time hours for low and middle income parents;
- **introduce the single-tier State Pension in 2016-17** to provide clarity and confidence to those saving for their retirement. This will end contracting out of the State Second Pension, so that everyone will pay the same rate of NICs and build up access to the same single-tier State Pension;
- **implement the £72,000 cap on reasonable social care costs, drawing on the Dilnot Commission's recommendations, and extend the means test to give more people access to financial support for their residential care costs from April 2016.** This will provide peace of mind to those who want to plan for their old age and leave savings to their children; and
- **reduce general beer duty by 2 per cent from 25 March 2013, worth 1 penny on a pint of beer, cancel the escalator for beer duty next year and instead increase it by inflation thereafter,** to support community pubs.

In addition, **this Budget announces a significant crackdown on tax avoidance and evasion, which in total raises over £4.6 billion in new revenue over the next five years.** As part of this, **the Isle of Man, Guernsey and Jersey** have agreed to enter tax information exchange agreements with the UK that will significantly increase the amount of information automatically exchanged on potentially taxable income, in order to identify and tackle evasion. In addition, **the Government will remove the presumption of self-employment for limited liability partnership (LLP) partners, to tackle the disguising of employment relationships through LLPs and counter the artificial allocation of profits to partners (in both LLPs and other partnerships) to achieve a tax advantage.**

The third section of Chapter 1 sets out further information on these and other announcements. Further information on the estimated distributional impact of this Budget is available in *Impact on households: distributional analysis to accompany Budget 2013.*[2]

Chapter 2 provides more information on the fiscal impact of this Budget and sets out all new Budget announcements in full.

Annex A presents financing information.

Annex B presents selected tables from the OBR's March 2013 *Economic and fiscal outlook.*

[2] Available on the HM Treasury website at www.hm-treasury.gov.uk.

Budget decisions and government spending and revenue

A summary of Budget policy decisions is set out in the table below.

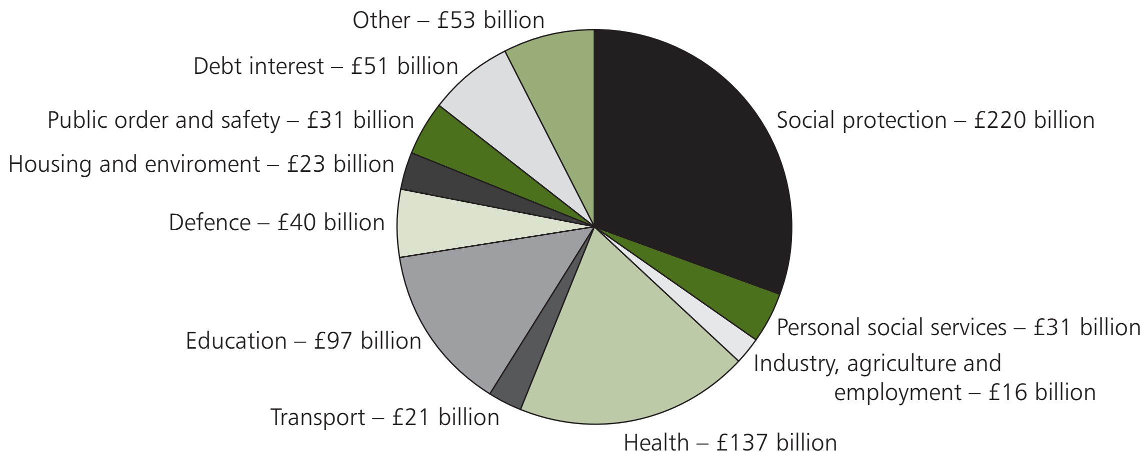
Table 1: Summary of Budget policy decisions[1]

	£ million				
	2013-14	2014-15	2015-16	2016-17	2017-18
Total tax policy decisions	-290	-2,705	-2,850	+1,740	+1,305
Total tax policy decisions excluding impact on government departments	-290	-2,705	-2,850	-1,585	-1,980
Total spending policy decisions	+1,605	+1,055	0	0	0
TOTAL POLICY DECISIONS	**+1,315**	**-1,650**	**-2,850**	**+1,740**	**+1,305**

[1] *Costings reflect the OBR's latest economic and fiscal determinants.*

Chart 1 presents public spending by main function. TME in 2013-14 is expected to be around £720 billion. TME is divided into DEL and AME.

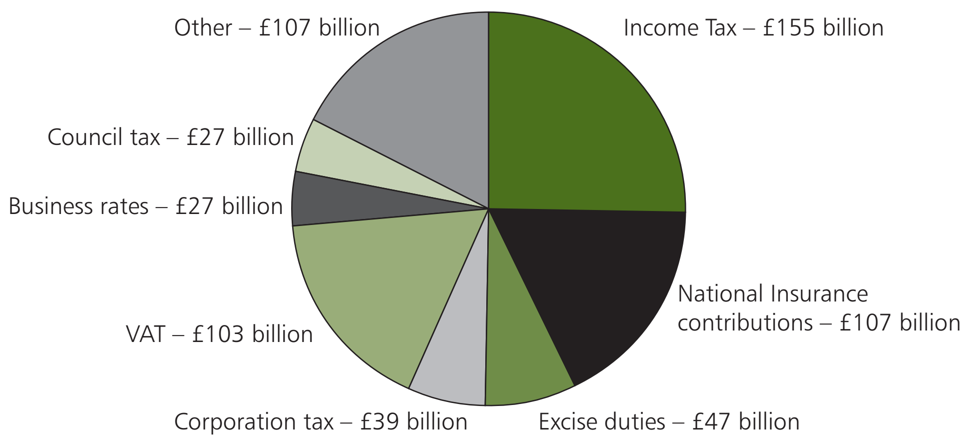
Chart 1: Government spending 2013-14



Source: Office for Budget Responsibility, 2013-14 estimates. Allocations to functions are based on HM Treasury analyses.

Chart 2 shows the different sources of government revenue. Public sector current receipts are expected to be around £612 billion in 2013-14.

Chart 2: Government receipts 2013-14



Source: Office for Budget Responsibility, 2013-14 estimates. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts – for example, interest and dividends. Figures may not sum due to rounding.