

Technical Bulletin

Budget 2013

22 March 2013

The Chancellor of the Exchequer, George Osborne, presented his Budget for 2013 on Wednesday 20 March 2013, setting out the Government's plans for the economy and public finances.

This Bulletin provides an overview of some of the measures announced. Further information on where to find Budget 2013 documents is provided at the end of this Bulletin.

Timing of Single-tier State Pension Reform

In a [Written Statement](#) to Parliament on 19 March, Minister for Pensions Steve Webb announced that the proposals on the single-tier State Pension, set out in a White Paper in January, will now come into effect in April 2016, a year earlier than proposed in January. Contracting out will be abolished at the same time. Other aspects will remain as previously outlined. GAD's [Technical Bulletin](#) gives further details on the proposals. Budget 2013 confirmed this revised timetable.

Use of Additional Revenue Raised from Ending Contracting Out

In Budget 2013, the Chancellor announced that the additional revenueⁱ raised through increased National Insurance Contributions (NICs) resulting from the abolition of contracting out would go towards covering the costⁱ of the social care reforms in the next parliament (see below) and a new "Employment Allowance" to be introduced in April 2014. The Employment Allowance will entitle every business and charity to a £2,000 allowance towards their employer NICs bill.

Care and Support Funding Reform (Social Care)

Budget 2013 announced that reforms to the funding of care and support, also known as social care or long-term care, announced in February (see GAD's [Technical Bulletin](#)) will be brought forward to 2016 and that the lifetime care cap will be set at £72,000. The costsⁱ of these reforms will be met by the increased NICs payable as a result of the end of contracting out and the freeze on the inheritance tax threshold to April 2018ⁱ.

Pensions Drawdown

Details were given in Autumn Statement 2012 of an increase in the capped drawdown limit from 100% to 120% of an equivalent annuity that could be purchased with the drawdown fund. This change will take effect from 26 March 2013. The Government announced in the Budget that GAD has been commissioned to review the pensions drawdown table and the underlying assumptions used to provide drawdown rates to make sure they continue to reflect the annuity market.

ⁱ Table 2.1 on page 66 of the Budget report provides an estimate of the cost or yield of all Budget decisions with a direct effect on public sector net borrowing. This includes tax measures, NICs measures, measures affecting Annually Managed Expenditure (AME) and changes to Departmental Expenditure Limits (DEL).

Extra Objective to be set for The Pensions Regulator

The Government announced that it will revise the statutory objectives of the Pensions Regulator (tPR). An additional objective will be given to tPR to support scheme funding arrangements that are compatible with sustainable growth for the sponsoring employer whilst still complying with the funding legislation for private sector schemes under Pensions Act 2004. Department for Work and Pensions (DWP) will publish legislation setting out the precise wording in spring 2013 and tPR will revise its Code of Practice to reflect the new objective as soon as possible in 2013. Implementation of the new objective will be subject to review after 6 months. The Government is also consulting on a new growth duty for non-economic regulators and is attracted, subject to the results of that consultation, to applying such a new duty to tPR.

The Pensions Regulator's Response

In response tPR [announced](#) that it will shortly publish an annual funding statement setting out guidance to trustees in the context of current economic circumstances, including the flexibilities available in the current regime, particularly the freedom to choose the basis on which contribution levels and valuations are calculated.

Asset and Liability Smoothing for Scheme Funding Valuations

The Budget also confirmed that DWP's [call for evidence](#) on whether to smooth assets and liabilities in (Pensions Act 2004) scheme funding valuations did not reveal a strong case for changing legislation to permit smoothing, so this will not be pursued further.

Pensions Taxation: Confirmation of Previous Announcements

Budget 2013 confirmed announcements made in Autumn Statement 2012 that:

- > the Lifetime Allowance will reduce from £1.5 million to £1.25 million from 2014/15
- > the Annual Allowance will reduce from £50,000 to £40,000 from 2014/15
- > a regulation-making power will be included in Finance Bill 2013 to amend the fixed protection legislation introduced in Finance Act 2011 to make it work as intended

Pensions Taxation: Lifetime Allowance Protection

As noted above, Autumn Statement 2012 announced a reduction in the Lifetime Allowance. Budget 2013 confirmed that an individual protection regime will be offered in addition to the fixed protection regime that had already been announced. The Government will consult on the detail of this individual protection regime in spring 2013 and legislation will be included in Finance Bill 2014.

Pensions Taxation: Bridging Pensions

Budget 2012 announced that the Government would legislate to align the tax rules on payment of bridging pensions with DWP changes to the State Pension Age. Budget 2013 confirms that legislation will be introduced, through the Finance Bill 2013, with effect from April 2013.

Additional Payments to Equitable Life Policyholders

Budget 2013 announced an ex-gratia payment of £5,000 to all living Equitable Life policyholders who bought a With-Profits Annuity before 1 September 1992 and who are now above age 60. A further £5,000 will be paid to such policyholders who are also in receipt of Pension Credit. The [payments](#), which fall outside of the ongoing compensation offered by the Equitable Life Payment Scheme, will be made in 2014/15 or if possible earlier, subject to the passage of regulations.

Support for Home Ownership through Help to Buy

The Budget also announced two schemes, open for three years, aimed at tackling long-term problems in the housing market and supporting those who want to get on to, or move up, the housing ladder. The “Help to Buy: equity loan scheme” will, from April 2013, provide equity loans worth up to 20% of the value of a new build home, repayable once the home is sold. In addition, the “Help to Buy: mortgage guarantee scheme” will, from January 2014, provide a mortgage guarantee for lenders who offer mortgages to people with a deposit of between 5% and 20% wishing to buy a new build or existing property. Both these schemes will be open to existing homeowners in addition to first-time buyers, apply to houses with a value up to £600,000 and have no income cap constraint.

Further Restraint on Public Sector Pay

Public sector pay awards in 2015/16 will be limited to an average of up to 1%. For the armed forces the Budget also confirmed that, in addition to the recent 1% increase in base pay, the “X-Factor” component of base pay will also be increased by 0.5% from 1 May 2013 as recommended by the independent Armed Forces Pay Review Body, meaning a total base pay increase of 1.45%.

Further savings in the 2015/16 Spending Round, to be published on 26 June 2013, will be sought through reform to progression pay. The armed forces will be excluded due to the unique nature of their careers.

Revisions to the Monetary Policy Committee’s Remit

Alongside Budget 2013, HM Treasury published a [review](#) of the monetary policy framework in an international and historical context. Budget 2013 confirms that the existing flexible inflation targeting framework will be retained, with a reaffirmed inflation target of a 2% annual increase in the Consumer Prices Index. However, Budget 2013 alters the Monetary Policy Committee’s (MPC) remit in two ways:

- > The remit now requires that, when forming and communicating its judgements, the MPC should promote understanding of the trade-offs inherent in setting monetary policy to meet a forward-looking inflation target, while giving due consideration to output volatility.
- > The remit now requires that the open letter from the Governor of the Bank of England should be sent alongside the minutes of the MPC meeting following the publication of the CPI data triggering the letter, in order to allow the MPC more time to form and communicate its strategy after consideration of the trade-offs.

Use of ‘Unconventional Instruments’ in Monetary Policy

In addition, Budget 2013 requests that the MPC provide in its August 2013 Inflation Report an assessment of the merits of using intermediate thresholds (policy commitments conditional on future economic developments) in the operation and communication of monetary policy. Budget 2013 also confirmed that the Asset Purchase Facility, which enables the operation of Quantitative Easing, will remain in place for 2013/14.

Retail Prices Index

Following the National Statistician’s [announcement](#) in January regarding the Retail Prices Index (RPI), Budget 2013 confirmed that the Government will keep the use of RPI for indexation purposes under evaluation until after the UK Statistics Authority has concluded its review into the governance arrangements and structures supporting the production of price indices and how to ensure that these statistics best meet the needs of users in future.

Expected Gilt Issuance for 2013/14

Budget 2013 sets out the anticipated gilt issuance, by maturity and type, for the year ahead. The Debt Management Office (DMO) expects to issue gilts to the total value of £151 billion in 2013/14 - a breakdown of the maturity and type is given below, alongside the equivalent figures from the [Budget 2012 report](#) (see also GAD's [Technical Bulletin](#)).

Maturity and Type	Anticipated issue value		Percentage of total issue	
	2013/14	(2012/13)	2013/14	(2012/13)
Short Conventional	£42.6 bn	(£51.6 bn)	28.2%	(30.8%)
Medium Conventional	£30.0 bn	(£34.9 bn)	19.9%	(20.8%)
Long Conventional	£32.6 bn	(£37.6 bn)	21.6%	(22.4%)
Index-Linked	£35.8 bn	(£36.1 bn)	23.7%	(21.5%)
to be issued by mini-tender*	£10.0 bn	(£7.5 bn)	6.6%	(4.5%)
Total	£151.0 bn	(£167.7 bn)	100.0%	(100.0%)

* gilts which are due to be issued by mini-tender have their maturity and type decided in consultation with the market during the year

Budget 2013 also confirmed the announcement in Autumn Statement 2012 that in 2013/14 the DMO will look to launch new issuance in the 50 to 60 year term area, subject to demand and market conditions. Decisions on specific maturities for issuance will be taken by the DMO after consultation with the market through the DMO's normal channels.

Budget Documents and OBR Reports

The Chancellor's [Budget statement](#), the full [Budget report](#) and other [main Budget documents](#) are available on the HM Treasury website. Further documents concerning taxation are available on [HMRC's Budget pages](#).

Alongside the Budget and supporting documents the Office for Budget Responsibility (OBR) published its [Economic and fiscal outlook](#). Further [documents](#) may be found on the OBR's website.

If you would like to discuss any of these issues in more detail or have any other questions please get in touch with your usual GAD contact.