Briefing Paper

The Budget 2013

March 2013

Introduction

The 2013 budget was announced against a background of continued low growth, rising unemployment, a continuing government deficit and calls for the government to stimulate the economy through increased capital investment.

The Chancellor's Budget statement of 20th March 2013 contained a string of moves designed to ease the cost-of-living, including a 1p cut in the price of beer and the cancellation of a planned fuel duty increase. A £130billion mortgage guarantee scheme will help people without big deposits to buy homes, with interest-free loans worth 20% of the value of a new build property also available.

And in what he called a Budget for "the aspiration nation", Mr Osborne said the income tax threshold will rise to £10,000 in 2014, a year earlier than planned. The Chancellor also gave small businesses a boost by unveiling a new employment allowance that will save employers £2,000 on their National Insurance bills.

But he was forced to admit that the recovery was taking far longer than expected as he confirmed growth forecasts for this year have been cut in half to just 0.6%.

So, what does all the point in the budget which has been announced today mean for local government and housing?

The Budget 2013 and Housing

Government support worth more than £130billion is to be made available to help people buy a home.

The launch of the 'Help to Buy' scheme will lead to a 'dramatic' increase in government support for house builders and those looking to buy their own homes. Families who want a mortgage to buy a home should be able to access a loan to buy it without a large deposit. Instead, the Treasury will guarantee the mortgage to reduce the cost of the up-front payment, with total backing worth up to £130billion available to lenders.

Osborne told MPs that this intervention by government into the housing market would run for three years from 2014. Given the scale of the support, he added that a future government would need the agreement of the Bank of England's Financial Policy Committee if they wanted to extend it. Another aspect of Help to Buy will extend the current New Buy scheme – currently for first time buyers purchasing a new home – to anyone who is looking to purchase a newly built house.

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In total, £3.5billion of capital spending will be earmarked for these shared equity loans. Government will provide loans worth as much as 20% of the cost of a new home, which will both reduce the size of the mortgage and deposit required. This loan, which will be interest-free for five years, will be repaid when the home is sold. Osborne said this would be counted by the Treasury as investment spending and would therefore not increase the size of the deficit. *'That is a good use of this government's fiscal credibility,'* Osborne said.

The government will expand the current Build to Rent fund from £200million to £1billion. The scheme supports the development of new homes for let at market rents.

The statement also revealed the government had increased funding to build 15,000 more affordable homes, and would also extend the government's right to buy initiative so more tenants could buy their own home.

More affordable homes are expected from a doubling of the existing affordable homes guarantee programme providing up to an additional £225million to support the development of a further 15,000 affordable homes by 2015.

Longstanding tenants who live in social housing in London will now be eligible for a discount of up to £100,000 to help to buy their home. The existing scheme capped the discount at £75,000 which the government considered too small to benefit many in the capital. The qualifying period will also be decreased from five years to three years across the country.

The government remains committed to its 'pay to stay' proposals on which it has already consulted. The proposal now is that tenants with incomes in excess of £60,000 a year (rather than £100,000 a year) should pay a higher rent than social rent – up to affordable rent or even market rent. Social landlords will be given discretion over whether they will increase rents in this way. Tenants will be required to notify their landlord if their annual income exceeds £60,000.

Responding to concerns in local government and housing associations about whether the current policy of increasing social rents by inflation plus 0.5% would continue after 2015, the government has given a commitment to provide certainty as part of the Comprehensive Spending Review in the summer of 2013; and that this will include the policy for the setting of social rents from 2015 to 2025.

The National Housing Federation said it welcomed 'the chancellor's realisation that people around the country are struggling to buy their own homes'.

National Housing Federation Chief executive David Orr said today's measure 'may help a number' of these people. However, he added there was a danger 'that if we don't tackle the fact we're still not building enough homes, we'll just create another housing bubble that will continue to push house prices up and out of reach of the majority'. He urged the government to focus on 'unlocking investment to build more new homes as a way of managing down the Housing Benefit bill and boosting the economy'.

Osborne also announced that the additional 1% savings being taken from unprotected Whitehall budgets in 2013/14 and 2014/15 would be used to boost infrastructure spending.

But this would not start until 2015/16, when completion of current projects meant that capital spending was set to 'fall back'. This would 'not be sensible', he said, so capital spending would therefore increase by £3billion a year. The detailed allocation will be set out in the Spending Review in June.

Osborne reiterated that the government had accepted the 'excellent idea' from Lord Heseltine to create a single funding pot for Local Enterprise Partnerships to bid for, covering transport, skills and house building.

This will 'support enterprise to give our great regional cities and other local areas much greater control over their economic destiny,' he said.

The government gave a commitment to reduce and simplify planning guidance by the summer of 2013; and to introduce measures to encourage flexibility in the use of existing buildings for example the turning of agricultural buildings into housing. Government also intends to increase the rate at which public land is disposed of.

Many in local government and housing had argued that the government should raise the 'borrowing caps' that had been imposed on local authority housing revenue accounts as part of the self-financing arrangements. It was argued that this would enable councils to invest to achieve the decent homes standard (where this has not already been achieved) and, more importantly, to invest in new build thus addressing the housing crisis and stimulating the economy. However, the government has decided not to raise the borrowing caps.

George Osborne announced plans to increase eligibility for right-to-buy by cutting how long you have to live in a house before being allowed to buy it from five years to three; and plans to build 15,000 more social homes. However, coupled with other changes to housing benefit, and a slowdown in construction of social homes, providers might find it still harder to house families on the waiting lists.

The Budget 2013 and Local Government

Council budgets in 2014/15 are set to be cut by a further 1%, a reduction of £220million, although the Chancellor has protected local government and police from the 1% cut to be applied to most other departments in 2013/14. The reduction in 2014/15 comes on top of the 2%, or £445million, reduction planned for that year which was announced in the Autumn Statement.

Across the public sector, the chancellor is seeking to cut resource funding by 1% over the next two years, totalling £1.1billion in 2013/14 and £1.2billion in 2014/15. Turning to the June spending review that will set out 2015/16 budgets, Mr Osborne said "existing protections" will apply, although it is not clear what this means for local government.

The Department for Communities & Local Government is not one of the three protected departments – health, education and overseas aid. However, the special treatment shown in the Autumn Statement, when local government was exempted from a 1% cut in 2013/14, has now been repeated in the Budget. As expected, capital spending was increased with a boost of £3billion a year from 2015/16 that the chancellor said would total £15billion over the next decade.

Mr Osborne said capital spending had been due to fall in 2015/16 but he had decided this was "not sensible" given the continued troubles in the economy.

Pay

Spending review allocations will be influenced by the chancellor's decision to extend pay restraint into 2015/16 with a continued cap on public sector pay rises of 1%. Although the Treasury has no say in local government pay awards, the chancellor said local government budgets would be "adjusted accordingly" in the spending round.

Mr Osborne also responded to complaints that reforms to the single state pension are set to cost local government employers billions of pounds in additional National Insurance contributions. Plans to scrap the second state pension have been moved forward from 2017 to 2016. The policy has always meant employees can no longer contract out of state pension requirements in return for reduced National Insurance contributions.

The chancellor said public sector employers – including councils – "will have to absorb the burden, as is always the case with tax changes".

However, he said the government recognised the burden on employers: "Any spending review in the next Parliament will, of course, take the £3.3billion cost into account.

Social Care

Mr Osborne confirmed that the introduction of a cap on social care costs would be brought forward to April 2016 and would be set at £72,000.

He added that individuals would be entitled to local authority support towards their care costs if their total assets were worth £118,000 or less. The plans had originally been set to take effect from 2017, with a £75,000 cap and £123,000 threshold. The full Budget report says the reforms "should help an extra 100,000 people who would not receive any support under the current system". The report confirms that the policy will be funded by an inheritance tax freeze.

Annual Managed Expenditure

The Chancellor also indicated the government would make moves to limit 'annually managed expenditure' which, unlike departmental expenditure limits, gives government little control over costs.

"In practice it was annually unmanaged expenditure – and it includes almost the entire welfare budget as well as items like debt interest and payments to the EU," he said.

Further details of how the government will limit "a significant proportion" of this AME budget will be set out in the June spending review, he said.

The move follows the reforms to council tax benefit which, as a Department for Work & Pensions responsibility, was AME spend but is set to become DEL next month when it becomes the responsibility of councils. This switch allowed government to cap the amount of money it will spend on the benefit.

However, it is difficult to see how other elements of annually managed expenditure could be brought within the departmental expenditure limit system because of the nature of the expenditure. Details of how it would work have been deferred to the Spending Review.

Spending Review – June 2013

The government increased the public spending reductions sought from the June Spending Review by £1.5billion. The Chancellor said a total of £11.5billion in savings would be sought, up from the £10billion he announced last year, with further public pay restraint expected to make a contribution.

Schools and health are to be protected during this two-year squeeze, and local government and police budgets will remain unaffected in the first year. The government will also fulfil its promise to devote 0.7% of national income to international aid.

Details of how the cuts will be made will be set out at the Spending Review planned for 26th June 2013.

The Chancellor announced that Chief Secretary to the Treasury Danny Alexander and Cabinet Office minister Francis Maude had identified £5billion in efficiency savings that would 'go a huge way' to achieving the Spending Review target.

The Budget statement revealed that Whitehall departments had under-spent by a total of £11billion this year. This is £3.4billion more than the independent Office for Budget Responsibility had forecast. This under-spend has reduced the deficit that Osborne said was now down by a third from 11.2% in 2009/10 to 7.4% this year. The deficit is forecast to fall to 6.8% next year and reach 2.2% by 2017/18.

Reaction to the Budget

Chartered Institute of Housing Chief executive Grainia Long said:

"The significant support for home ownership and construction through Help to Buy and the mortgage guarantee scheme is welcome recognition of the central role housing can play in powering our economic recovery. Thousands of people have been locked out of home ownership by spiralling prices and these schemes will help to address that.

"However, government will need to monitor the impact of these policies carefully to ensure that they are increasing new house building rather than simply stoking up house prices.

"We are disappointed that the Chancellor has missed the opportunity to lift local authority borrowing caps so they can invest more in developing new homes. This move would release nearly £10billion of investment over five years, to build 15,000 homes a year, supporting 23,500 jobs a year and adding £5.6billion to our economy per year. CIH will continue to press for borrowing caps to be lifted. We believe that with house building at its lowest level since the Second World War the government needs to invest directly in new homes on a bigger scale."

"We are pleased that the government has listened to CIH's call to provide certainty for social rents beyond 2015. This will give landlords the confidence to invest for the future by enabling them to secure around £3billion a year of new private finance to invest in the continued supply of new homes.

"The announcement of an extra £225million to support up to 15,000 new affordable homes through the guarantee scheme is a welcome contribution to provide much-needed new homes for people on lower incomes."

"This scheme (build to rent) has been massively oversubscribed so we are pleased that more money is being invested. Market renting is the fastest growing sector of the housing market, but demand is still outstripping supply in many areas leading to rising rents and worsening affordability. This scheme can play a key role in bringing institutional investment into the market rented sector and will help to increase the supply of new homes for rent.

"Increasing access to Right to Buy is good news for the people who will benefit and local authorities may receive more money to invest in new homes. But it's still not clear whether the homes that are being bought under this scheme will be replaced on a one for one basis, as the government promised they would be. If they are not then the number of affordable homes available for social rent will be reduced, and that's not good news for anyone."

The National Housing Federation noted the danger of another housing bubble emerging from the measures the chancellor has presented. National Housing Federation chief executive David Orr said:

"We welcome the Chancellor's realisation that people around the country are struggling to buy their own homes, and the measures introduced today may help a number of them. But the danger is that if we don't tackle the fact we're still not building enough homes, we'll just create another housing bubble that will continue to push house prices up and out of reach of the majority.

"Our housing market has long been weakened by the lack of new houses being built, which are forcing up rental and house prices – leaving millions of people struggling to get on the property ladder or pay their rent. The Government should be focusing on unlocking investment to build more new homes as a way of managing down the housing benefit bill and boosting the economy. We welcome the measures to support new supply but they are very small scale.

And we still need the Government to help unlock land banks, free the small publicly owned derelict sites so we can build houses on them and give housing providers long-term certainty over how much income they can expect so they can start planning and building beyond 2015. With the impact of welfare reform still to be fully felt, we need reassurance and long-term commitment so we can play our part in raising the finance needed to build more homes."

Green party leader Natalie Bennett said that the chancellor is *"a man who's in a hole yet he compulsively can't stop digging'* and continued:

"His slightly amended Plan A for austerity - with some small, and largely unwise, investments in trying to promote largely unaffordable private housing, fracking and road building - is effectively business as usual - an approach that has delivered us youth unemployment of 21.2%, plummeting real wages, and misery for benefit recipients.

"What he should have done today is to announce a serious programme of investment in the successful green economy, introduced steps to force banks to lend to small and medium-sized businesses and not further advantaged large corporations by further dropping the corporate tax rate. He should have lifted caps on council borrowing for house building and provided direct capital spending to allow councils to build a mass programme of sustainable council housing.

"We also should stop the tax relief on private pension plans and plough that £13 billion a year into the basic state pension – setting that at a level that immediate ensures no pensioner is living in poverty - and reverse the real-terms cuts to benefits contained in the sadly misnamed 'Benefits Uprating Bill."

The president of the Royal Institute of British Architect Angela Brady welcomed the pledges but argued they would fail to stimulate the 'desperately needed' delivery of sustainable new homes and communities. She said:

"The UK is in the grip of the worst housing crisis for decades yet committing to build only a tiny proportion of the 300,000 new homes that are needed each year to meet demand. The private sector has only ever delivered around 150,000 homes a year, so whilst today's Help to Buy announcement will enable greater access to mortgage finance, it does not sufficiently address the root cause of the housing crisis: we are not building enough homes, many of those that are being built aren't good enough, and we cannot rely on private house building alone to turn things around.

"Government should act as a catalyst for sustainable construction growth where the market is failing to deliver. Today's budget was the opportunity to kickstart a major programme of capital investment in new affordable homes and to lay the foundations for the green economy – on both counts the Chancellor has failed to deliver. We weren't expecting a game-changer budget today, but this country desperately needs one."

Responding to the statement, the British Property Federation said a housing stimulus would provide the 'missing piece' of the government's housing strategy. Director of policy Ian Fletcher said:

"This is a strong package of help for housing. Annual transactions are half what they were and that has knock on consequences for all those parts of the economy that rely on people moving. 'Helping people needing a deposit has for some time been cited as the missing piece of a coherent housing policy."

The Federation of Small Businesses said that the Chancellor's measures went beyond even what they had hoped for. John Walker, their national chairman, said:

"The FSB asked for a budget for small businesses and this is what has been delivered. This Budget opens the door for small firms to grow and create jobs. The Chancellor has pulled out all the stops with a wide-ranging package of measures to support small firms. FSB says the housing initiative will help reinvigorate the construction sector in which many of our members operate and where confidence has been low."

Key Points Overview

The Economy

- The independent Office for Budget Responsibility predicts Britain will avoid a second quarter of negative growth and slipping into a triple-dip recession.
- OBR forecasts put growth for this year at 0.6%, down a massive 50% on its previous forecast of 1.2%.
- Growth forecasts for the coming years are now: 2014 - 1.8%, 2015 - 2.3%, 2016 - 2.7% and 2017 - 2.8%.
- The deficit has been cut by a third from 11.2% of GDP in 2009/10 to 7.4% this year. It is forecast to drop to 2.2% by 2017/18.
- Borrowing forecast to hit £114bn this year instead of £108bn, then £108bn in 2014, £97bn in 2014/15, then £87bn, £61bn and £42bn in the following years.
- Proportion of national income spent by the state has fallen to 43.6%.
- Public sector net debt is due to be 75.9% of GDP this year, then 79.2%, 82.6%, 85.1%, 85.6% in following years falling to 84.8% in 2017/18.
- The Bank of England's Monetary Policy Committee keeps 2% inflation target but has its remit overhauled.

Spending and Spending Cuts

- Whitehall departmental budgets cut by 1% after £11bn underspend this year.
- Bigger savings of £11.5bn sought in the spending review for 2015/16, up from £10bn.
- Public sector pay cap of 1% extended by a year in 2015/16. Military will receive full recommended increase and be exempt from changes to profession pay.
- New limit on "annually managed expenditure", which includes welfare budget, debt interest and payments to the EU.
- Deal on the European budget secured by David Cameron saved Britain £3.5bn.
- Infrastructure plans given and annual £3bn boost from 2015/16 - a total of £15bn over the next decade.
- Plans to take forward two major carbon capture and storage projects.
- "Generous" new tax regime to promote early investment in shale gas and tax incentives for the manufacture of ultra low emission vehicles.

Taxes and Welfare

- Corporation tax cut another 1% to 20% in April 2015 and small company and main rates of corporation tax merged at 20p.
- Corporation tax cut paid by rise in bank levy rate to 0.142% next year.
- Help for employees with more generous shareholder status, Capital Gains Tax relief for sales of business to workers and doubling tax free loans for commuter season tickets to £10,000.
- Large new package of measures targeting tax avoidance and evasion to bring in £3bn in unpaid taxes.
- New Employment Allowance from April 2014 taking off first £2,000 from employer National Insurance bills. Means around 450,000 small businesses will pay no employer NI at all.
- Rise in personal allowance brought forward to 2014, meaning no income tax will be paid on the first £10,000 of earnings.
- Extension to the Capital Gains Tax holiday.
- Tax-free child care vouchers worth £1,200 per child and increased support for families with children on universal credit.

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Housing

- New Help-to-Buy scheme for people struggling to build up a deposit to buy a house, worth £130bn in loans.
- Includes £3.5bn for shared equity loans and Government interest-free loan worth 20% of the value of a new build house.
- PENSIONS AND SOCIAL CARE
- Flat rate pension of £144-a-week brought forward to 2016.
- Cap on social care introduced in 2017 and set at £72,000. Threshold for means-testing of help raised from £23,000 to £118,000.
- Help for Equitable Life Policy holders extended to those who bought with-profits annuities before 1992, with payments of £5,000 and extra £5,000 for those on lowest incomes.

Fuel and Beer

- Planned rise in fuel duty this autumn is cancelled.
- Planned 3p rise in beer duty tax scrapped and replaced by a 1p cut on a pint of beer.
- Beer duty escalator axed. Planned rises for other alcohol duties is retained.

Conclusions

The budget can be seen as trying to push forward with coalition policy on deficit reduction in the toughest of economic times while attempting to give the people of the UK a little bit of a lift from the gloom of the economic recession.

The carrots such as income tax breaks and no increase in beer tax in addition to the planned 'Help to Buy' scheme and other changes cannot conceal the fact that economic growth is slow and forecasts are being reduced. There is no real leap forward in house building, when this is much needed and there is no respite for local authorities as their budgets are still being squeezed ever tighter.

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Our mission statement is 'Independence, Integrity, Value'. We therefore provide support to clients from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

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