Budget 2013

Glenigan Comment

Construction is a bright spot in tough Budget.

While public sector spending is being tightened as the Government presses on with its deficit reduction plans, Chancellor is diverting planned expenditure toward capital spending. Discouragingly the promised extra £3 billion a year of capital funding will not effectively be available until after the next General Election in 2015/16. This is especially disappointing given that the industry has been looking for the rapid deployment of 'shovel ready' schemes and, as was witnessed with the Building Schools for the Future Programme, a change in administration can lead to a change in spending priorities.

In contrast the additional support unveiled for the housing market should provide a more immediate lift to the industry's fortunes and to the UK economy. The Help to Buy programme promises additional support for house purchasers that should boost housing market turnover and new house construction. In addition five-fold expansion of the Build to Rent programme to £1 billion should also help to drive new housing activity and draw in institutional investors into the housing sector.

Economic Summary

Today George Osborne announced that growth in 2013 would be half of that expected only four months ago in the Autumn Statement. The Office for Budget Responsibility (OBR) now believes GDP will increase by 0.6% this year, compared to the 1.2% forecast last December. The Chancellor added that although it was taking longer than expected "we are, slowly but surely, fixing our country's economic problems".

OBR Economic Forecast

Annual % Change	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
GDP	0.9	0.2	0.6	1.8	2.3	2.7	2.8
Household Consumption	-1.0	1.0	0.5	1.2	1.7	2.4	2.8
Fixed Investment	-2.9	1.4	2.2	6.7	8.1	7.7	7.8
Investment in private dwellings	2.3	-5.4	2.0	8.9	10	10	9.7
House Prices	-1.0	1.6	1.3	1.6	3.3	4.0	4.0
Inflation	4.5	2.8	2.8	2.4	2.1	2.0	2.0
Average Earnings	2.3	2.1	1.4	2.7	3.6	4.0	4.0

The downgrade in growth expectations over the next two years is a result of the country's inability to find the export led growth that has been the economic Holy Grail in this government's recovery plan. Weakness in the EU still remains the biggest barrier to net gains from trade, however the Chancellor did make the point that the country is now exporting more to non-EU countries than to the EU for the first time in 20 years. Central to the OBR forecast over the next few years is that growth in exports will outstrip growth in imports, giving the country the boost to growth that is needed.

Domestic demand is expected to remain weak in 2013; both private and government consumption spending will grow at much slower rates of 0.5% and 0.4% respectively this year compared to last year. Investment levels are also expected to remain subdued, with growth of business and government investment slowing compared to 2012. However investment in private housing is expected to pick up this year; growing by 2% after falling 5% last year. The government hopes the job creation seen in the past year will continue with an additional 600,000 new jobs to be created in 2013.

Inflation is set to remain above target for the next few years before falling back to 2% in 2016. The Chancellor also reaffirmed the role of the Bank of England in meeting the 2% inflation target and said that the Bank will now have to be more explicit in the reasons for its policy actions. He also said the Asset Purchase scheme will remain active and gave the Bank greater scope for the use of further unconventional policy tools in the future.

Public Finances

£ Billions	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Government Expenditure	657.2	672.9	680.0	694.2	703.7	713.0
Government Investment	44.1*	47.2	50.4	50.4	51.3	52.1
Borrowing	114	108	97	87	61	42

***including Royal Mail pension transfer**

The public finance forecasts have once again been revised in the wrong direction; for the 2013-14 year the country is now expected to have to borrow an additional £8bn than was expected back in December. Borrowing in subsequent years is also set to increase. An additional £54bn is required to balance the books between 2013-14 and 2017-18, with the result that national net debt will not begin to fall until 2017-18. This is two years later than was originally thought when the government embarked on its austerity plan.

Specific Budget Measures

General taxation:

- **Corporation tax**— Planned rate reduction extended. The rate falls to 21% in 2014/15 and will be cut to 20% in 2015/16. This will align it with the smaller companies' rate and leave the UK with the lowest corporate tax rate of any major economy.
- **Income Tax**— Personal tax allowance raised to £10,000 from 2014/15.
- **Aggregates levy**— The levy will be held at £2.00 per tonne in 2013/14.
- **Stamp Duty**— abolished on share transactions of companies quoted on growth markets such as the Alternative Investment Market (AIM) and the ISDX Growth Market from 2014/15.
- **National Insurance**— Every business and charity will entitled to a £2,000 Employment allowance towards their employer NIC bill from 2014/15.

- **Landfill tax**– The Government will increase the standard rate of landfill tax by £8 per tonne to £80 per tonne from 1 April 2014. The lower rate of landfill tax will remain frozen at £2.50 per tonne in 2014-15.
- **Vehicle Excise Duty** rates for heavy goods vehicles will be frozen in 2013-14.
- **VAT threshold**– From 1 April 2013 the VAT registration threshold will be increased from £77,000 to £79,000 and the deregistration threshold from £75,000 to £77,000.
- **Fuel Duty–** The planned increase in fuel duty has been scrapped.

Housing

- **Help to Buy package** of measures to increase the supply of low-deposit mortgages and the supply of new housing involving:
  - **Help to Buy: equity loan on the purchase of newly built homes**— £3.5 billion allocated to provide an equity loan worth up to 20 per cent of the value of a new build home, repayable once the home is sold. Eligibility to the scheme will be wider than that for Newbuy and Firstbuy, applying to homes values of up to £600,000 and it will be open to those trading up as well as first time buyers. The scheme will run in England for the next three years, with £3.5 billion earmarked to support an estimated 74,000 home buyers.
  - **Help to Buy: mortgage guarantee**— The scheme will run for three years from January 2014. Under the scheme the Government will allocate up to £12 billion to provide guarantee to lenders offering mortgages to people with a deposit of 5% to 20%. It will be open to first time buyers and movers on properties of up to £600,000.
- **Right to Buy—** The qualifying period for tenants will be reduced from five to three years and the maximum discount cash cap in London will be increased to £100,000.
- **Build to Rent—** Funding is being increased five-fold to £1billion to provide equity or loan finance to support the development finance stage of building new homes for private rent in England.
- **Affordable homes—** The existing affordable homes guarantee programme is to be doubled; providing up to an additional £225 million (£125 million of which is public sector funds) to support a further 15,000 affordable homes starting in England during 2014/15.

Investment

- **Public Sector Investment—** An extra £3 billion a year of capital spending has been allocated from 2015/16. The cost will be met through reductions in current spending this. Departmental allocations will be decided in the forthcoming Spending Review.
- **Carbon Capture and Storage (CCS)** – The Government intends to take forward two CCS projects to the detailed planning and design stage of the competition.