# Executive Summary

This Budget sets out a five-year plan to rebuild the British economy based on the Government's values of responsibility, freedom and fairness. It shows how the Government will carry out Britain's unavoidable deficit reduction plan in a way that strengthens and unites the country.

The British economy has become unbalanced. It has been too reliant on growth from a limited number of sectors and regions. Overcoming these challenges will require a new model of economic growth built on saving, investment and enterprise instead of debt. This Budget is the first step in transforming the economy and paving the way for sustainable, private sector led growth, balanced across regions and industries.

This Budget sets out the action the Government will take in three areas to rebalance the economy and provide the conditions for sustainable growth:

- **deficit reduction;**
- **enterprise; and**
- **fairness.**

## Responsibility: deficit reduction

The most urgent task facing this country is to implement an accelerated plan to reduce the deficit. Reducing the deficit is a necessary precondition for sustained economic growth. To continue with the existing fiscal plans would put the recovery at risk, given the scale of the challenge. High levels of debt also put an unfair burden on future generations.

For the first time, the Government's fiscal policy decisions have been based on independent forecasts for the economy and public finances. The Office for Budget Responsibility (OBR), in its pre-Budget forecast[1], has confirmed that without further action to tackle the deficit:

- public sector net borrowing would remain at 4 per cent of GDP in five years time, having been above 5 per cent of GDP for six consecutive years, unprecedented in the post-war period;
- the structural deficit would be 2.8 per cent of GDP in 2014-15, while the structural current deficit would be 1.6 per cent; and
- debt would still be rising in 2014-15 to 74.4 per cent of GDP, with annual debt interest payments set to reach £67 billion in that year.

The Government has therefore set a forward-looking fiscal mandate to **achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period.** At this Budget, the end of the forecast period is 2015-16.

[1] *Office for Budget Responsibility pre-Budget forecast*, Office for Budget Responsibility, June 2010.

At this time of rapidly rising debt, the fiscal mandate will be supplemented by **a target for public sector net debt as a percentage of GDP to be falling at a fixed date of 2015-16**, ensuring that the public finances are restored to a sustainable path.

This Budget takes urgent action to eliminate the bulk of the structural deficit through **plans for additional consolidation of £40 billion per year by 2014-15.** These plans include:

- **£32 billion per year by 2014-15 from spending reductions.** This includes £30 billion of current spending reductions and no further reductions in capital spending beyond those already announced. **The Budget announces the Spending Review will be on 20 October 2010**;
- **as part of these spending reductions, the Budget announces £11 billion of welfare reform savings** designed to reward work and protect the most vulnerable, including adopting the Consumer Prices Index for the indexation of benefits, tax credits and public service pensions from April 2011. **The Budget also announces a two year freeze In public sector pay, except for those earning less than £21,000 a year;** and
- **£8 billion per year from net tax increases. This includes an increase in the main standard rate of Value Added Tax (VAT) to 20 per cent and the standard and higher rate of Insurance Premium Tax (IPT) to 6 per cent and 20 per cent from 4 January 2011.**

By 2014-15, 80 per cent of the additional consolidation measures set out in this Budget will be delivered through spending reductions.

The Budget and the plans the Government inherited represent a total consolidation of £113 billion per year by 2014-15 and £128 billion per year by 2015-16, of which £99 billion per year comes from spending reductions and £29 billion per year from net tax increases. By 2015-16, 77 per cent of the total consolidation will be delivered through spending reductions.

As a result of the action the Government is taking, the OBR projects in its Budget forecast that:

- public sector net borrowing will decline to 1.1 per cent of GDP in 2015-16;
- the structural current deficit will be eliminated by 2014-15, with a projected surplus of 0.8 per cent of GDP in 2015-16; and
- public sector net debt will peak at 70.3 per cent of GDP in 2013-14, before declining to 67.4 per cent of GDP in 2015-16.

**The OBR's judgement is that the policies set out in this Budget are consistent with a greater than 50 per cent chance of achieving the Government's fiscal mandate and target for debt. The OBR's central forecasts also show the mandate and debt target being met a year early in 2014-15.**

The first section of Chapter 1 describes the source of the imbalances in the UK economy and the scale of the economic and fiscal challenge the country faces. It sets out the Government's fiscal plans in more detail.

## Freedom: enterprise

The second element to rebalancing the economy is creating the conditions for enterprise and sustainable growth. If growth is to be sustainable, it needs to be based on an expansion in the private sector, not the public sector, and businesses across all regions and industries need the right conditions to be able to grow.

This Budget sets out a plan to support business and restore the UK's diminished competitiveness. The Government will give businesses more freedom by reducing regulation and tax rates, while refocusing support towards infrastructure, the low-carbon economy, and regional development. This Budget announces:

- **a reduction in the main rate of corporation tax from 28 per cent to 24 per cent over the course of four financial years from April 2011, a reduction in the small profits rate to 20 per cent from April 2011, and a reduction in the main and special rate of capital allowances to 18 and 8 per cent respectively in April 2012;**
- **an increase in the Enterprise Finance Guarantee and the creation of a new Growth Capital Fund;**
- **a reversal of the most damaging part of the planned increase in employer National Insurance Contributions by raising the threshold by £21 a week above indexation in April 2011; and**
- **a Regional Growth Fund in 2011-12 and 2012-13 to support increases in business employment and growth, and a scheme in which new businesses in targeted areas will get a substantial reduction in their employer National Insurance Contributions (NICs).**

The second section of Chapter 1 outlines the Budget announcements in more detail.

## Fairness

Underpinning the Goverment's approach is a commitment to fairness. The Government will ensure that every part of society makes a contribution to deficit reduction while supporting the most vulnerable, including children and pensioners. The Government will also seek to build over the long term a fair tax and benefit system that rewards work and promotes economic competitiveness.

The Budget sets out a vision for a refocusing of the tax and benefit framework. It announces measures to encourage people to take personal responsibility for their actions by rewarding those who work hard work and save responsibly for the future. In particular:

- **the personal allowance for under 65s will be increased by £1,000 in April 2011, with the gains limited to basic rate taxpayers.** The Government estimates that the 880,000 lowest income taxpayers will be removed from tax altogether;
- **capital gains tax will be increased to 28 per cent for higher and additional rate taxpayers, with an increase in the entrepreneurs' relief lifetime limit to £5 million;**
- **the Government will introduce a levy based on banks' balance sheets from 1 January 2011 intended to encourage banks to remove to less risky funding profiles. The Government will also take action on unacceptable bank bonuses; and**
- **the Government will work in partnership with local authorities in England to freeze council tax In 2011-12.**

As part of the welfare reforms referred to above, **the Budget announces reforms to the housing and disability benefit and tax credit system to make it fairer and more affordable.** These reforms will reduce dependency and promote work.

To help protect those who are most vulnerable and have the highest level of need, **the Budget announces that Child Benefit will be frozen for three years to help fund significant increases in the Child Tax Credit. The Budget also announces that the Basic State**

**Pension will be uprated by a triple guarantee of earnings, prices or 2.5 per cent, whichever is highest, from April 2011.**

As a result of the Budget measures the richest will contribute the most to deficit reduction, and the impact on child poverty in 2012-13 is statistically insignificant.

The third section of Chapter 1 outlines the Budget announcements in more detail.

The Budget sets out a comprehensive list of all measures and announcements in Chapter 2.

Annex A of the document presents an analysis of the impact of the Government's tax and welfare proposals on households.

Annex B sets out the debt management and financing framework.

Annex C to this document is the OBR's Budget forecast

## Budget decisions and government spending and revenue

A summary of the fiscal impact of Budget policy decisions is set out in the table below. Chapter 2 provides more information on the fiscal impact of the Budget

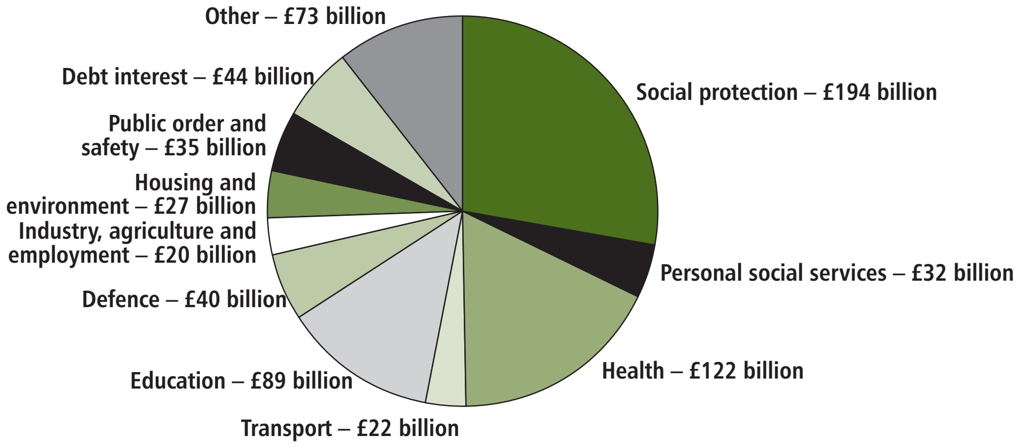
Table 1: Summary of the Budget policy decisions

| | £ million | | | | |
|---|---|---|---|---|---|
| | **2010-11** | **2011-12** | **2012-13** | **2013-14** | **2014-15** |
| **Total tax policy decisions** | **+2,830** | **+6,255** | **+6,950** | **+8,515** | **+8,230** |
| **Spending measures announced at this Budget** | | | | | |
| Changes to current spending | +3,465 | +6,835 | +15,230 | +21,700 | +29,780 |
| Changes to capital spending | +1,780 | +2,020 | +2,070 | +2,120 | +2,160 |
| **Total spending policy decisions** | **+5,245** | **+8,855** | **+17,300** | **+23,820** | **+31,940** |
| *Of which specific welfare measures* | *+385* | *+2,010* | *+4,710* | *+8,150* | *+11,040* |
| **TOTAL POLICY DECISIONS** | **+8,075** | **+15,110** | **+24,250** | **+32,335** | **+40,170** |
| Memo: debt interest savings as a result of policy decisions in spending review period | – | –820 | +1,030 | +1,810 | +3,020 |
| Memo: total policy decisions excluding debt interest savings | +8,075 | +15,930 | +23,220 | +30,525 | +37,150 |

Chart 1 presents public spending by main function. Total Managed Expenditure (TME) in 2010-11 is expected to be around £697 billion. TME is divided into Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME).

**Chart 1: Government spending 2010-11**

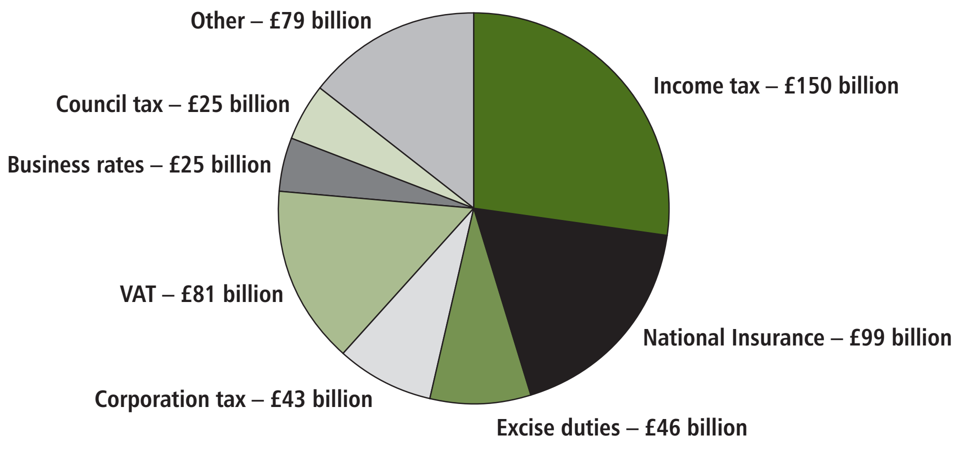
**Total spending: £697 billion**




*Source: HM Treasury 2010-11 near-cash projections. The allocation of spending to functions is largely based on the United Nations' Classifications of the Functions of Government (COFOG). Other expenditure includes general public services (including international services); recreation, culture, and religion; public service pensions; plus spending yet to be allocated and some accounting adjustments. Social protection includes tax credit payments in excess of an individual's tax liability, which are now counted in AME, in line with OECD guidelines. Figures may not sum due to rounding.*

**Chart 2: Government receipts 2010-11**

**Total receipts: £548 billion**




*Source: Office for Budget Responsibility, 2010-11 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 to total due to rounding.*

Chart 2 shows the different sources of government revenue. Public sector current receipts are expected to be around £548 billion in 2010-11.