

# ENGINE | MHP BUDGET ANALYSIS

11 MARCH 2020

**ENGINE** | mhp

## BUDGET 2020 ANALYSIS

The pressure on the slim shoulders of our new Chancellor – in post for less than a month – on delivering the Budget could not have been greater.

But somehow, to borrow a theme from his speech: ‘He Got It Done’.

The fiscal taps have truly been turned on. No shades of austerity here. This ended up being just short of a full-on stump style ‘sunny uplands’ speech - all funded by massive Government spending. It was initially well-received in the House. But as its implications shake out, there will be shivers of nervousness in parts of the Conservative Party and more widely; there was something here just a little bit reminiscent of Gordon Brown, and his default reach for the mythical magic money tree.

It started soberly, without the traditional Chancellor swagger that is usual on these occasions. COVID-19 makes for extraordinary circumstances. Mr Sunak – a little lacking in confidence it initially seemed – was quick to outline the Government’s ‘temporary, timely and targeted’ initiatives. His commitment to provide the millions or even billions for the NHS was met with a low rumble of approval from the Conservative benches. In total a £30 billion fiscal war chest has been made available.

The raft of further support measures followed; a half billion pound boost to the welfare system; a half billion pound hardship fund for local authorities; a new Government-backed loan scheme for SMEs and a Government refund of statutory sick pay to them. Mr Sunak was not leaving any room for doubt about how seriously the Government is taking this.

The announcements were met largely in silence – without the usual heckling from the Opposition benches. Only once did Health Secretary Matt Hancock lean forward to shush one of his opposite number.

Then the Chancellor moved onto the crowd-pleasing stuff (at least for the Government side of the House).

This was the first Budget since leaving the EU.

He talked of promises to let families keep more of what they earn, to back business, promote growth, invest in roads, railways, broadband and the country’s public services. He spoke of levelling up the country and moving economic decision-making out of being in London alone. This was the Government ‘To Get It Done’. Mr Sunak had grown into his speech, now, and the Government benches were willing him on.

His commitment to ‘Get it Done’ culminated in a promise of a world-leading response to COVID-19 – which would be just a start to securing, and then building on future prosperity. The Chancellor sat down to a hearty slap on the back by a near-haggard looking Prime Minister.

This was largely a serious speech, as merited by the current climate. The Chancellor allowed himself only a couple of jokes – going so far as to remark that he was someone ‘all in favour of a jobs miracle’. Mr Sunak will also have garnered considerable support amongst colleagues

for his gracious acknowledgement of his predecessor, assuring him that his legacy would be a £1.5 billion investment in the entire further education estate.

The Chamber thinned out considerably before Labour Leader Jeremy Corbyn's speech in response. He had the air of a man going through the motions. The Labour benches behind him stayed stonily silent. His jibe that it was 'Dominic Cummings' Budget' did not land.

In fairness to him, however, this is actually rather the key point.

It is widely known that Rishi Sunak has not previously been a fan of 'tearing up' the fiscal rules (as favoured by Mr Cummings). Therefore, any suggestion of doing so in today's Budget, so the narrative went, was to be interpreted as an indication of where power really lay.

Yet somehow the Chancellor seems to have ... gotten away with it. His considerable financial commitments to public services, tax cuts, duty freezes and productivity-enhancing investment was eagerly greeted by his own benches, and even those of the other parties barely stirred themselves to much opposition. But today's Budget, he was quick to reassure the House, was being delivered within the fiscal rules of the manifesto, with lower headline debt and significant fiscal headroom in 2024/5.

However - and this will be one to watch in the coming days and week - he also committed to a review of the fiscal framework. So whilst Mr Sunak has had his day in the sun today, that spending/borrowing/debt debate hasn't really gone away at all.

## **BUDGET ANNOUNCEMENTS**

### **1 Growth, employment and inflation**

---

The OBR's growth forecasts do not fully take into account the impact of the coronavirus, but project real GDP growth of 1.1% in 2020, 1.8% in 2021, 1.5% in 2022, 1.3% in 2023 and 1.4% in 2024.

Employment is due to rise from 33 million in 2020 to 33.4 million in 2024.

The CPI measure of inflation is expected to rise from 0.9% in 2020 to 1.2% in 2021 and 2022, before falling to 1.1% in 2023 and rising again to 1.2% in 2024.

### **2 Public finances**

---

The OBR report a current budget surplus in every one of the next five years and fiscal space of nearly £12bn in 2022-23.

Borrowing will increase slightly from 2.1% of GDP in 2019 to 2.4% in 2021, 2.8% in 2022 and then falling.

The OBR forecast that headline debt will be lower at the end of the Parliament, falling from 79.5% to 75% in 2024-25.

Though the Budget was delivered within the confines of the Government's existing fiscal rules, there will be a review of these rules over the coming months.

### **3** Coronavirus

---

The Chancellor announced a number of measures to deal with the Coronavirus. These were:

- committing to make available any additional resources the NHS requires to deal with the virus
- making Statutory Sick Pay available to all those who are advised to self-isolate even if they don't display symptoms
- allowing people to access a sick note via. NHS 111
- relaxing the requirement for people self-isolating to physically attend a jobcentre to claim benefits
- allowing those receiving contributory Employment Support Allowance to claim from day one rather than day eight
- a new £500 million hardship fund to allow local authorities to support vulnerable people in their area
- temporarily removing the minimum income floor in Universal Credit
- businesses employing under 250 people being refunded the cost of Statutory Sick Pay for the first fourteen days per employee
- a scaling up of Time to Pay arrangements for business and self-employed people struggling with cashflow
- retail venues, cinemas and pubs will have their business rates abolished altogether this year. This applies to those with a rateable value of less than £51,000. Museums, art galleries and theatres will also benefit from the 100% retail discount over the next financial year
- a new Coronavirus Business Interruption Loan Scheme that will see banks offer loans of up to £1.2m to support SMEs
- a £3,000 grant for each business qualifying for Small Business Rate Relief

### **4** Investment

---

There will be £600bn of investment spending over the next five years, taking public net investment to the highest level it's been since 1955. Capital budgets in 2024-25 alone will reach over £110bn.

The Government will provide £5bn to get gigabit broadband into all parts of the UK and also invest £510 million in the shared rural mobile phone network so that in the next five years 4G coverage will reach 95% of the country.

£27bn of investment in the Strategic Road Network and a £2.5bn pothole fund. This includes proceeding with the A303 project.

A number of other specific transport projects will receive funding, including the Manchester-Leeds leg of Northern Powerhouse Rail, a new train station at Cambridge South, the Midlands Rail Hub, Darlington station moving to the next stage of development and approval and new funding to make dozens of train stations more accessible.

## **5 Public services**

---

### **EDUCATION**

Per pupil funding in schools will increase next year by over 4%.

There will also be funding to provide every region in the country with specialist 16-19 maths schools and £1.5bn in new capital funding over five years to dramatically improve the condition of the further education college estate.

### **HEALTH**

An increase in the Immigration Health Surcharge with a discounted rate for children.

Reform to doctors' pensions to remove almost all GPs and consultants from the taper.

£6bn of new funding in this Parliament to support the NHS, including to deliver 50,000 more nurses and 40 new hospitals.

A commitment to 50 million more GP surgery appointments.

£200 million of additional support for the life sciences sector.

### **VETERANS & FAMILIES**

A £10 million donation to the Armed Forces Covenant Trust to support veterans with mental health conditions and the introduction of a one-year break from National Insurance Contributions for businesses that employ veterans.

£2.5 million in funding will be channelled into research on how to best integrate family services, including family hubs.

## **6 National Living Wage**

---

The National Living Wage is currently projected to be over £10.50 an hour by 2024. There will be a new mandate for the Low Pay Commission to raise the National Living Wage to two-thirds of median income by 2024.

## **7 National Insurance**

---

The employee National Insurance threshold will increase from £8,632 to £9,500, giving 31 million people a tax cut and saving a typical employee £104. The Employment Allowance will increase by a third to £4,000.

## **8** Other tax measures

---

Fuel duty will be frozen for another year.

Entrepreneurs' Relief will be reformed, with the lifetime limit being reduced from £10 million to £1 million, saving £6bn over the next five years.

There will be a freeze for all alcohol duties and additional funding to promote the Scottish food and drink industry internationally as well as funding to allow the industry to go green.

The Business Rates discount for pubs will be £5,000 this year. There will also be a long-term review of the overall future of Business Rates.

The tampon tax will be abolished from 1 January 2021.

Books, newspapers, magazines or academic journals, however they are read, will have no VAT charged on them from 1 December 2020.

There will be additional funding for HMRC to secure £4.4bn of additional tax revenue.

Corporation tax to remain at 19%.

## **9** Business

---

There will be £130 million in funding to extend Start-up Loans and a £5bn increase in export loans for businesses.

Investment of £900 million in nuclear fusion, space and electric vehicles.

### **RESEARCH AND DEVELOPMENT**

Investment in research and development to rise to £22bn per year, the highest as a percentage of GDP in almost forty years.

The R&D expenditure credit will be increased from 12% to 13%.

More details on investment in new ideas will be announced at the Spending Review.

There will be a £1.4bn investment in the science institute at Weybridge.

The Government will invest at least £800 million on a new 'blue skies' Funding Agency in the UK.

There will be £400 million of new R&D funding immediately made available, with much of it going to universities around the whole country.

## 10 Homeownership

---

Extension of the Affordable Homes Programme, with a £12bn multi-year settlement and cutting by 1% the interest charged on loans for social housing.

£1.1bn from the Housing Infrastructure Fund to build 70,000 homes in areas of high-demand across the country.

Cutting interest rates for local authorities on lending for social housing by 1%.

A consultation on the future of the public works loan board.

The Structures and Buildings Allowance will be increased from 2% to 3%, giving an extra £100,000 of relief if you are investing in a building worth more than £10 million.

£643 million to help rough sleepers into permanent accommodation.

A new Building Safety Fund worth £1bn to remove all unsafe combustible material from all buildings more than 18 metres high.

There will be a 2% Stamp Duty surcharge from April 2021 for non-UK residents.

Further reforms to the planning system are due to be set out by the Secretary of State for Housing, Communities and Local Government tomorrow.

## 11 Environment

---

Taxes on pollution will rise. From April 2022 the Climate Change Levy on electricity will be frozen and increased on gas.

A new plastic packaging tax will be introduced from 2022, which will charge manufacturers and importers £200 per tonne on packaging made of less than 30% recycled plastic.

The tax relief on 'red diesel' will be abolished for most sectors in two years, with agriculture, rail, fishing and domestic heating exempted and a consultation with other sectors to take place over the summer. To develop cleaner alternatives to red diesel, R&D investment in the energy innovation programme will double to £1bn.

Support for more energy intensive industries to transition to net zero by extending the climate change agreement scheme for another two years.

£120 million available immediately to repair damage to defences in the winter floods, with £200 million provided to increase flood resilience and a doubling of investment in flood defences over the next six years to £5.2bn.

£300 million investment in tackling nitrogen oxide emissions in communities.

Carbon capture and storage investments of £800 million to create two or more carbon capture storage clusters by 2030 – this will create up to 6,000 jobs.

£640 million for a new Nature for Climate Fund.

£500 million to support the rollout of new rapid charging hubs, so that drivers are never more than 30 miles away from being able to charge up their car.

Over the next five years, the Government will plant around 30,000 hectares of trees – that's a forest larger than Birmingham – and restore 35,000 hectares of peatland.

## 12 Devolution

---

There will be a new economic campus in the North with the aim to move 22,000 civil servant roles outside central London.

There will be a new devolution deal for West Yorkshire. The new Mayor of West Yorkshire and all other metro mayors will get new London-style funding settlements worth £4.2bn. This is in addition to the Transforming Cities fund which will invest over £1bn in local transport in twelve further cities including Stoke, Preston, Nottingham, Derby and Southampton.

There will be a review of the Treasury's 'Green Book' and Treasury offices established in Scotland, Wales and Northern Ireland.

An extra £640 million in funding for the Scottish Government, £360 million for the Welsh Government and £210 million for the Northern Ireland Executive.

### MHP BUDGET ANALYSIS BREAKFAST - TOMORROW

08.00am, Thursday 12<sup>th</sup> March, ICA, Carlton House Terrace SW1Y 5AH

With insight and analysis from:

- **James Kirkup** – Director, the Social Market Foundation & the former Executive Political Editor of The Telegraph
- **Katy Balls** – Deputy Political Editor, The Spectator
- **Steven Fine** – CEO of Peel Hunt, the investment bank focused on UK mid and small cap companies.
- **Matthew Elliott** (Former CEO of the Vote Leave campaign and MHP advisor)

### FOR MORE INFORMATION

Contact our Heads of Public Affairs **James Gurling** [james.gurling@mhpc.com](mailto:james.gurling@mhpc.com) & **Jamie Lyons** [jamie.lyons@mhpc.com](mailto:jamie.lyons@mhpc.com). You can also find us on Twitter [@MHPC](https://twitter.com/MHPC) and at [mhpc.com](https://www.mhpc.com).