Spring Budget 2023: Hunt goes for growth

Briefing by PoliMonitor

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Summary

The Chancellor was keen to make this one of the more boring budgets on record - at least in recent years. The inevitable Government briefings and leaks in the media sought to paint this Budget as one of Chancellor Jeremy Hunt continuing to sail the ship through moderately choppy waters, navigating the country's finances through what seems to be the last winds of a protracted economic crisis. A relatively modest feat one might suppose, but something which proved too tall a task for three of his last four predecessors. Being bold doesn't seem to be a successful trait if you're keen to remain Chancellor for longer than a few months.

But Mr. Hunt has every right to also be willing to take plaudits for his efforts thus far, with the OBR publishing a more upbeat forecast alongside the Budget, which showed that the UK has avoided a recession and is on course to grow every year. As with any OBR forecast, however, it is often the prerogative for a Chancellor to pick and choose what to celebrate, with Hunt keeping shtum on the OBR also reporting the biggest fall in living standards since the 1950s.

Regardless, the more positive forecast than expected gave the Chancellor more headroom in his focus on growth, tackling issues with national productivity and helping to get Britain back to work. But like many Chancellors before him, Hunt will have to deal with the inevitable fallout this Budget will cause, with a showdown with backbench Tory fiscal hawks seemingly on the cards over his plans to increase corporation tax to 25%.

The statement lasted just over an hour, with the Chancellor lacing throughout his speech three of the Prime Minister's five priorities: halving inflation, growing the economy and reducing the national debt. The following report addresses some of the key contents of the Chancellor's Budget. Whether or not industry responds well to these measures remains to be seen.

The Budget 2023: Hunt goes for Growth

> **"Today we deliver the next part of our plan: a budget for growth. Not just the growth that comes when you emerge from a downturn, but long-term, sustainable healthy growth that pays for our NHS and schools, finds jobs for young people and provides a safety net for older people all while making our country one of the most prosperous in the world: prosperity with a purpose."**

Energy Price Guarantee extended for three months

> **"After listening to representations from Martin Lewis and other experts, I today confirm that the Energy Price Guarantee will remain at £2,500 for the next three months"**

It's always a good idea to start the Budget with some good news. Turning to the first of the Prime Minster's five priorities to halve inflation, the Chancellor argued that part of the fall in inflation forecast by the OBR was down to the additional measures that he took today. Seeking to address the distress still felt by families in paying their energy bills, the Chancellor announced that the Energy Price Guarantee, due to rise to £3,000, is to be extended for 3 months at its current rate of £2,500, ahead of an expected fall in energy prices in July. This will save an average family up to £160 on top of the energy support measures already announced.

End to the Prepayment Penalty

Currently, those on Prepayment meters are often the poorest customers, who pay more on their energy bills comparably to those on Direct Debit. The Chancellor recognized the unfairness of this difference and has announced this will no longer be true after July where this premium cost will be removed. The additional cost refers to the cost energy firms pass on to customers in order to manage meters including supplying vouchers and collecting payment. This change will see the cutting of bills for over 4 million households and on average will save these households £45 a year.

Alcohol duty to rise with inflation; new tax system for alcohol could see largest increase in 50 years

In 2021, then-Chancellor Rishi Sunak announced reforms to the 380-year-old alcohol duty system, often criticised for being overly complicated. Although paid by producers or importers, alcohol duty tends to be passed onto consumers. The new regime, which sees rates set entirely based on the alcohol content of the product in a sliding scale four-tier system, could see drinks like prosecco, rose, fruit ciders, liqueurs, and lower strength beers become cheaper. Some white ciders and red wines could see large increases, whilst spirits will see a marginal rise.

However, this change will also be accompanied by a hike in the rates of tax paid in each of the four tiers of this new system, with the Chancellor confirming his announcement last year that the alcohol duty will rise with inflation. Concerns were previously raised that increasing the rate in line with inflation could lead to increases of up to 45p per bottle of wine, an increase that the Wine and Spirit Trade Association says is the largest in 50 years.

Hunt sought to quickly move on from this scheduled rise in the alcohol duty by announcing a new “Brexit Pubs Guarantee”, which will maintain a significant increase in draught relief so that duty on draught products in pubs will be up to 11p lower than the duty in supermarkets. Notably, the Chancellor highlighted the fact that “thanks to the Windsor Framework” negotiated by the Prime Minister, this Guarantee would also apply to pubs in Northern Ireland.

But with this inflationary change in alcohol duty set to come into force on 1 August 2023, if the wine doesn’t give consumers a headache, the receipt will.

Fuel duty frozen; 5p fuel duty cut to be extended

Fuel duty is supposed to rise by RPI inflation each year. With the 5p fuel duty cut announced in March 2022 also due to have expired this month, combined this would have led to a 11p increase in fuel duty. With the Chancellor acknowledging this and in the context of other inflationary pressures, Hunt has continued the trend of freezing this increase, a move that has been included in every budget since 2011. The Chancellor also announced an extension of the 5p-a-litre fuel duty cut for a further year, in a move that save the average driver £100 over the next year.

> **"Our energy price guarantee, fuel duty and duty on a pint all frozen in today's budget. That doesn't just help families, it helps the economy too, because their combined impact reduces CPI inflation by nearly three quarters of a percent this year, lowering inflation when it is particularly high."**

Defence spending increased by £11bn over five years; increased support for veterans

As per the Integrated Review Refresh published earlier this month, UK defence spending is to be increased by £5bn, over a period of two years. This extra cash includes £3bn on nuclear submarines, covering the recent AUKUS deal announced by Sunak alongside his U.S. and Australian counterparts, Joe Biden and Anthony Albanese. Although this was reportedly half of what Defence Secretary Ben Wallace has been arguing for, and seemed to set the stage for continued friction between the Ministry of Defence and No. 11, Hunt then went further, stating that due to the 'persuasive' Wallace's representations, the Government would add a total of £11bn to the Defence budget over the next 5 years, representing "two and a quarter" percent of UK GDP by 2025. With the UK being the first large European country to commit to 2% of GDP for defence, Hunt announced that this would be raised to 2.5% "as soon as fiscal and economic circumstances allow".

Further, Hunt also praised the 'equally persuasive' Minister for Veterans' Affairs Johnny Mercer, announcing an increase in support for veterans in a package worth over £30m to increase the capacity of the Office for Veterans Affairs to support veterans with injuries returning from their service, and increase the availability of veteran housing.

New low-tax investment zones a departure from Truss's vision

The Chancellor has also announced 12 new low-tax investment zones across the UK. These zones will be highly specialised and clustered around research institutions such as universities. These zones will each be focused on driving growth in one of five areas: technology, creative industries, life sciences, advanced manufacturing and "the green sector". There will be at least one in Scotland, Wales and NI, with the other 8 being in England: East Midlands, Greater Manchester, Liverpool City Region, North East, South Yorkshire, Tees Valley, West Midlands and West Yorkshire. Each zone, hosted by regional leaders in each location, will receive up to £80m in Government support over 5 years, which can be used to offer tax incentives or to improve skills, as well as providing specialist business support or improving local infrastructure. Tax breaks and incentives will also be offered, which could include relief to stamp duty business rates or employer national insurance contributions. This is a notable departure from the scale and vision of former Prime Minister Liz Truss, who had wanted as many as 200 of these zones, at a cost to the Treasury of up to £16bn.

Getting Britain back to work

Productivity has become a major concern for the Treasury, with more than 400,000 more people out of the workforce on health grounds since the start of the pandemic. Indeed, 2.5 million 'economically inactive' people are classed as long term sick. Excluding students, it is estimated that there are 6.6 million 'economically inactive' working age adults in the UK. Worried about the impact this might have on the UK's productivity, as well as it's possible contribution to inflation as firms are forced to offer higher wages to attract talent, the Chancellor also announced a raft of policies in his Budget to help get Britons back to work:

- Separate benefit entitlement from an individual's ability to work which will allow disabled benefit claimants to seek work without fear of losing financial support.
- A new voluntary employment scheme - "Universal Support" for disabled people where the government will spend up to £4000 per person to help them find appropriate jobs and put in place the support they need.
- £400 million plan to increase the availability of mental health and musculoskeletal resources and expand the individual placement and support scheme.
- To help children in care Hunt has announced doubling the qualifying care relief threshold to £18,140.
- Increased funding provided by the Government to the Stay In Close Programme by 50% to help more care leavers in employment.

- £3 million pilot expansion of the Department for Education's Supported Internship Program to help those with special educational needs or disability to transition from education into the workplace.
- For those on Universal credit without health issues, sanctions will be applied more rigorously to those who fail to meet strict work search requirements or choose not to take out a reasonable job offer.
- Increased administrative earnings threshold from the equivalent of fifteen hours to eighteen hours, at national living wage for an individual claimant, meaning that anyone working below this level will receive more work, coach support alongside a more intensive conditionality regime.
- For over 50s the government will increase the number of people who get the best possible financial health and career guidance ahead of retirement by enhancing the DWP's midlife MOT strategy.
- 'Returnership' programme - A new apprenticeship programme for over 50s who want to return to work, which will work alongside skills bootcamps and sector based work academies, with increased flexibility and reduced training length.

Hunt also announced the publishing of the Health and Disability White Paper, which can be found **here**.

30 hours of free childcare for 1 and 2 year-olds

Leaked as a 'rabbit out of the hat' last night, the Chancellor has announced that the 30 hours of weekly free childcare for 3 and 4 year-olds will now be extended to 1 and 2 year-olds, providing that both parents work at least 16 hours a week. A jewel in Hunt's crown in encouraging people back to work, this proposal has already been given tacit approval from the Opposition, and praise from think tanks. This will be introduced in stages "to ensure there is enough supply in the market". From April 2024 two year olds will be able to access fifteen hours of free childcare, from September 2024 these fifteen hours will be extended to all children from nine months up, meaning a total of nearly one million parents will be eligible. The goal is by September 2025 every single working parents of under fives will have access to thirty hours free childcare per week from the moment paternity or maternity leave ends.

This will obviously have a huge impact on the childcare sector, which led the Chancellor to also announce today that nurseries will move to 1:4 to 1:5 staffing ratios. In order to encourage more people to sign up as childcare workers, the Chancellor also announced an offer of £600 sign-on bonuses for childminders and up to £1200 for those who join through an agency. He has also announced increased funding to be paid to nurseries providing free childcare by £204 million from this September, rising to £288 million pounds next year. He also adds that the government will fund schools and local authorities to increase the supply of wraparound care so all school age parents can drop their children off between eight a.m. and six p.m. He also adds the ambition for all schools to be able to offer this wraparound care by September 2026.

UC childcare payments up; to be paid in advance

A thorn in the side of many young families has been the universal credit system for childcare, which allows working households to claim back 85% of childcare costs up to a maximum of £646 a month for one child, or £1,108 for two or more. With the cap remaining the same since 2005 and with childcare costs more than doubling in certain areas of the UK since then, this has long been due for a review. Hunt announced the Government will increase the maximum parents can claim to £951 for one child and £16,30 for two children, an increase he highlights of almost fifty percent.

The Chancellor has therefore announced that families on universal credit will get more help by receiving childcare funding upfront, instead of having to claim it back on arrears later. The cap on how much childcare support parents can claim on universal credit has also been increased from the current level of £646 for one child per month and £1,108 for two or more children a month to £1,000 and £2,000 respectively, in what will be a huge boost to young families across the UK. Could this lead to a baby boom of Jeremys? Only time will tell.

Pensions uncapped: Hunt abolishes lifetime allowance; annual contributions up to £60k

In a major boost for higher-rate earners, the Chancellor has announced the abolishment of the lifetime allowance. The limit was rumoured to be going up to £1.8m, which is what it was in 2010, though it was cut to £1m in 2016 and today sat at £1,073,100. Alongside this, the maximum annual contributions that someone may pay in during a calendar year has also been increased to £60,000.

The possible benefits of this rise from the Chancellor's view is twofold. Firstly, it is hoped that this will encourage people to work longer, retiring later to enjoy a bigger pension in their twilight years. Secondly, that this will tackle the issue of NHS doctors reducing their hours or retiring early due to the lifetime allowance making it less economically viable to continue working. However, having been leaked the day before, James Kirkup, Director of the Social Market Foundation, raised the fact that the lifetime allowance is "entirely irrelevant for most". In the

2020-21 financial year, for example, only 41,000 people exceeded the annual allowance. The average defined contribution pension is worth £65,000.

Additionally, IFS Director Paul Johnson told TalkTV that this was a “strange sledgehammer to crack a very small nut" with regards to fixing doctor's pensions. Whilst Johnson was not necessarily against the abolition of the allowance, he mused that it would be "easy to sort out the NHS pensions scheme... giving the doctors the equivalent value in their salary".

Finally, the Government will increase the minimum Tapered Annual Allowance from £4,000 to £10,000 from 6 April 2023. The adjusted income threshold for the Tapered Annual Allowance will also be increased from £240,000 to £260,000 from 6 April 2023.

Hunt confirms increase in corporation tax in challenge to right-wing backbenchers

The idea of getting Britain back to work makes for a dazzling headline for the Chancellor’s first budget. However, the true headline for many lies in Hunt’s confirmation that the proposed increase in corporation tax from 19% to 25% will go ahead. Worth approximately £18bn to the UK economy, this rise was first announced by Rishi Sunak when he was Chancellor in 2021.

This rise takes the UK above the OECD average, but isn’t altogether that high on international standards. However, Hunt faces considerable grumblings from the backbenches and beyond, with three former Conservative Chancellors - Lord Hammond, George Osborne and Kwasi Kwarteng - all publicly stating their opposition to the rise, arguing that this would make the country less competitive and less attractive for businesses seeking to do business in the UK.

Of course, this is a direct departure from Hunt’s direct predecessor Kwasi Kwarteng, who announced in his mini-budget of September 2022 that the proposed corporation tax rise in April would not go ahead. It was his impending u-turn on this policy which led to his dismissal and to Hunt’s elevation to one of the Great Offices of State. Whilst some - including former Cabinet Minister Jacob Rees-Mogg - believed that Hunt would delay this rise in corporation tax anyway, it appears that the Chancellor has stuck to his guns, laying down the gauntlet for a showdown with Tory backbenchers, among whom are former Prime Ministers Liz Truss and Boris Johnson, who has publicly called for the rise to be scrapped.

The Chancellor has attempted to soften the blow that this increase in corporation tax will bring by unveiling a multi-billion pound scheme allowing businesses to reduce their tax bills by investing in the UK, to replace the super-deduction introduced by then-Chancellor Rishi Sunak in 2021. This new policy will allow for full capital expensing of IT, plant and machinery costs, which can be deducted from taxable profits. This will cost an estimated £9bn a year which, notably, is less than the total value of the super-deduction, which cost £25bn over two years.

£20bn for Carbon Capture and Clean Energy

With the rise of Energy Security concerns following the invasion of Russia into Ukraine, Hunt has announced his intentions to make the UK a global leader in Nuclear and Carbon Capture. Hunt has announced £20 billion for carbon capture, utilisation and storage, which he regards as another ‘plank’ in the UK’s green economy, of which will fund projects to store 20-30 million tonnes of carbon dioxide (CO2) a year by 2030.

The Chancellor has also announced a commitment to launching a competition of small modular reactors which will help ensure Britain is protected from volatile fossil fuel markets in the future and avoid spikes in energy bills rising to the scale it has over the winter of 2021. This will be done through the help of the new Government body Great British Nuclear who will take measures to help towards the UK’s Energy Independence through the delivery of UK Nuclear projects. This will include coordinating the delivery of new plants, selecting potential sites and help remove bureaucratic barriers for manufacturers as they develop proposals.

The Chancellor also announced the launch of the first competition for small, modular reactors, to be completed by the end of this year and if demonstrated as viable, will be co-funded by the Treasury.

Other measures

£100m for DCMS to support thousands of local charities and community organisations

£10m over two years to support voluntary sector in suicide prevention

Tobacco duty uprated

Gross gaming yield bans frozen

Range of measures to be announced to tackle promoters of tax avoidance schemes

£63 million fund to keep our public leisure centres afloat

£200m extra funding for dealing with potholes

Enhanced R&D tax credit, with particular emphasis on life science sector

34% expenditure credit for film, high-end TV and video games; 39% for animation and children's TV

“We tackle the two biggest barriers that stop businesses from growing; Investment incentives and labour supply. The best investment incentives in Europe, the biggest ever employment package for disabled people, more help for older people, barriers removed for families feeling the pinch, fuel duty frozen, beer duty cut, energy bills capped and for parents thirty hours free childcare for all under fives. Today we build for the future, with inflation down, debt falling and growth up. The declinists are wrong and the optimists are right. We stick to the plan because the plan is working.”

Industry response

Initial response to the Budget has been frosty from some industry groups. As more detail comes to light, it remains to be seen whether the Chancellor has achieved what many consider to be a 'wonk-heavy' Budget, with little surprises outside of what was leaked to the press in recent days.

"Note what the Chancellor did not mention. Nothing on public sector pay. No mitigation of big income tax rises coming in this April. No more money for public services post 2024. [The] OBR may be more positive about inflation and the economy. But it is still projecting that 2022 and 2023 will see the biggest ever fall in living standards." **- Institute for Fiscal Studies Director Paul Johnson. Link here.**

"The Chancellor has set high expectations for supporting small firms during these challenging times, but today's Budget will leave many feeling short-changed. The distinct lack of new support in core areas proves that small firms are overlooked and undervalued. Budgets are about tough choices, and with today's £billions being allocated to big businesses and households, 5.5million small businesses and the 16 million people who work for them will be wondering why the choice has been made to overlook them." **- FSB National Chair Martin McTague. Link here.**

"In the face of volatile demand caused by high inflation and low consumer confidence, measures to support households with the cost of living... are welcomed. However, many businesses are weighed down by. a myriad of higher costs right through the supply chain. Government must do more to limit one of the biggest drags to retail investment, which is oncoming regulatory burdens heading down the track, or risk a crash in business investment and further inflationary pressures." **- British Retail Consortium CEO Helen Dickinson. Link here.**

"The Treasury has not just published new rates. It's a 10.1% increase. After the Budget: 1) Jeremy Hunt continues to favour beer and cider (on-trade) 2) continues to penalise spirits: highest w/ 10% increase and 3) wine gets 20% increase - *biggest increase since 1975*. It is IMPOSSIBLE to square Jeremy Hunt and Rishi Sunak's decision with the following claims from Government: 1)bringing down inflation 2) supporting consumers through cost of living crisis and 3) supporting hospitality - because they are killing supply chain businesses." **- Chief Executive of Wine & Spirit Trade Association Miles Beale. Link here.**

For more information or assistance in evaluating the reaction to this Budget, please contact the PoliMonitor team at info@polimonitor.com.

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