

# Autumn Budget overview 2021

## Introduction

The Chancellor of the Exchequer, Rishi Sunak, presented his first Budget of 2021 on Wednesday March 3rd. Now, a little under eight months later, he was back, rising to speak after Prime Minister's Questions as he once again tried to chart the UK economy's recovery from the COVID-19 pandemic – and find a way to pay for all the support measures he has had to put in place.

Once upon a time we didn't know what was going to be in the Budget speech. Guessing what the Chancellor was going to say was a matter of conjecture, controversy and even competition.

Nowadays though, like many major government announcements, much of the Chancellor's speech had been leaked in advance, so what did we know before Mr. Sunak started speaking? There would be a cash injection for the NHS, investment in regional transport, skills, housing and education, along with a freeze in fuel duty, an end to the pay freeze in the public sector and an increase in the National Living Wage (NLW).

Not only did we know what, we also knew how much:

- £5.7bn for English city regions to spend on tram, train and cycle projects
- £5.9bn for the NHS to tackle the backlog of people waiting for tests and scans
- An increase in the NLW from £8.91 an hour to £9.50
- £2.6bn for 30,000 new school places for children with special educational needs and disabilities
- £1.6bn over three years for new T-levels for 16 to 19 year olds and £554m for adult skills in England.

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## Introduction continued

There were also rumours on Wednesday morning that the Chancellor would use the Budget to make concessions on Universal Credit, following the earlier removal of the £20 top-up during the pandemic.

So the man who gave us the furlough scheme, 'eat out to help out' and the highest levels of Government debt in peace time was clearly determined to go on spending. Where would he find the money? The BBC reported that the Treasury had asked Government departments to find 5% of savings 'from their day-to-day budgets.' Several of the morning papers suggested that the Chancellor was pinning his hopes on a resurgent economy. The Express captured what was thought to be the general mood of the Chancellor's announcements, saying that, "Rishi Sunak will today unveil his ambitious plan to build an economy fit for the future and usher in a 'new age of optimism'."

## The economic background

Although we obviously don't have figures for the full year, it may be that the forecasts from the OBR prove to be somewhat cautious. It was initially reported that in the second quarter of the year (April to June) the UK economy grew at 4.8%.

By the end of September that growth figure had been revised upwards to 5.5%. With the ratings agency Fitch predicting that the UK economy will grow at 6.5% this year, well above the OBR's March forecast.

Job vacancies went past the 1 million mark in September, Government borrowing for the month was £7bn less than in September 2020 and figures for August showed that the economy was continuing to grow.

That said, it is not all good news. The problems in the supply chain have been well documented and – like virtually all countries – the UK is facing the threat of inflation, which reached 3.1% in August and has been forecast to average 4% by the end of the year. For now the Bank of England is saying it does not expect any rate rises to counter inflation – although there are plenty of pundits who disagree.

## The political background

A quick glance at the bookmakers' odds confirms that Rishi Sunak is still very much the favourite to be the next leader of the Conservative Party and the next Prime Minister, even if his favour among his party may have fallen recently.

Many MPs, especially on the right of the party, are unhappy with what seems like an ever-increasing tax burden and, ahead of the speech, there were interesting questions about what, if any, steps the Chancellor takes to address that.

Business has very forcibly made its feelings known. Responding to the PM's speech at the Conservative Conference, Richard Walker, the MD of Iceland, stressed that business is "not an endless sponge that can keep absorbing costs."

There are also tensions at Westminster over the seemingly ever-increasing cost of 'net zero,' with the PM set to make more commitments, as the COP26 Conference in Glasgow approaches.

As Prime Minister's Questions ended and Dame Eleanor Laing took charge of proceedings in the Commons, the Chancellor rose to deliver his speech and, hopefully, usher in that 'new age of optimism.'

## The speech

### Opening remarks

Watching the Chancellor's first Budget speech, back in March, was an interesting experience. He started very hesitantly and visibly grew in confidence the longer he spoke. Today he kept to the promised tone of optimism and was upbeat from his first sentence, stressing that "the plan is working."

Employment and investment were up, he said. Wages were rising, growth was up and debt was down. The UK was recovering faster than other countries. "This Budget is about what the Government is about," he said. "World class public services... backing business." In general, Rishi Sunak committed to continue the programme of levelling up the UK: "because for too long, far too long, the location of your birth has determined too much of your future."

We mentioned the danger of inflation above, and the Chancellor spent some time acknowledging the threat it posed. It was, he said, caused by significant increases in the demand for goods, with supply chains unable to keep up, and energy, as the world recovered from the pandemic. Inflation in the UK was 3.1% in September and the OBR expected it to average 4% over the next year in the face of these "shared global problems."

The Chancellor had written to the Governor of the Bank of England to stress the Bank's remit to deliver 'low and stable' inflation – although there was no mention of the previous target figure of 2%.

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## The speech continued

### The numbers

Earlier predictions from the OBR had been that the UK economy would recover to pre-Covid levels by the middle of 2022. Now, the Chancellor was visibly pleased to announce, it would reach that level “at the turn of the year.”

The OBR was now expecting the UK economy to grow at 6.5% this year (very slightly below the forecast from Fitch we mentioned above) and by 6% in 2022. It would then return to more normal levels of growth, increasing by 2.1% in 2023, followed by 1.3% and 1.6%.

There was even better news on unemployment, which had originally been forecast to peak at 12%, but was now expected to reach a maximum level of 5.2%. The OBR also revised its forecast for business investment upwards.

The ‘scarring assumption’ (roughly, the long-term effect of the pandemic on the economy) was revised down from 3% to 2% as the OBR described Rishi Sunak’s plan for tackling its economic impact as “remarkably successful.”

Despite this the Chancellor acknowledged that borrowing remained higher than at any time since the Second World War, and the time was right for a new ‘Charter for Budget responsibility.’ This would be based on two new fiscal rules:

- Underlying public sector net debt, excluding the impact of the Bank of England, must, as a percentage of GDP, be falling.
- And, in normal times, the state should only borrow to invest in future growth: ‘everyday’ spending must be met from taxation.

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## The speech continued

The OBR confirmed that the fiscal rules had been met, said the Chancellor, as he said that net public sector debt as a percentage of GDP would be 85.2% this year and would reach a peak of 85.7% in 23/24 before falling to 85.1% and then 83.8%.

Borrowing as a percentage of GDP would be 7.9% this year, and then fall sharply to 3.3% in the next financial year, followed by 2.4% in 23/24 before dipping below 2% for the rest of the forecast period.

He closed this section of the speech by confirming the Government's commitment to four 'fiscal judgements':

- The fiscal rules must be met with a margin to protect against 'external economic risk.' (He pointed out that a 1% rise in interest rates would cost the Government around £23bn.)
- There would continue to be support for working families.
- Overseas aid will return to its previous level – 0.7% of GDP – from 2024/25.
- Total departmental spending over this parliament would increase by £150bn – the largest increase this century, with spending growing by 3.8% a year in real terms, with every Government department seeing an increase.

## Personal taxation and allowances

In line with the Chancellor's statement on new fiscal rules he is to introduce to limit over-spending by the government, he was at pains to highlight that "last year, the state grew to be over half the size of the total economy."

Essentially: taxes and government spending rose to combat the pandemic. Rishi Sunak wants to see this going in the opposite direction: "My goal is to reduce taxes. By the end of this Parliament, I want taxes to be going down, not up." But in this particular Budget there was only limited information on how that would happen, with a change to the Universal Credit allowance taper taking the limelight as the last announcement the Chancellor covered.

<b>What</b>	Universal Credit taper rate cut by 8%, work allowance raised by £500.
<b>When</b>	Introduced 'within weeks', no later than 1st December 2021.
<b>Comment</b>	<p>For every £1 that someone earns over the current Universal Credit allowance taper, 63p is given in tax.</p> <p>'To make sure work pays' the Chancellor cut the rate by 8% to 55% and raised the work allowance to £500.</p> <p>The government's figures suggest 2 million families will keep on average £1,000 extra per year as a result of these changes.</p>

<b>What</b>	Health & Social care levy will increase National Insurance Contributions by 1.25%
<b>When</b>	April 2022
<b>Comment</b>	As previously announced, the Health & Social care levy is designed to address the lack of funding for health and social care across the UK. The levy is 1.25% and will apply to anyone who pays Class 1 or Class 4 National Insurance Contributions.

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## Personal taxation and allowances *continued*

- What** An increase to the rates of income tax on dividends by 1.25%
- When** April 2022
- Comment** Another move that was previously announced alongside the Health & Social care levy, income tax on dividend income will increase by 1.25%. This makes the ordinary rate 8.75%, the upper rate 33.75% and the additional rate 39.35%.
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- What** Capital Gains Tax (CGT) property payment window increased
- When** 27th October 2021
- Comment** The deadline to report and pay CGT on UK residential property (i.e; the sale of a second home) was increased from 30 days to 60 days. The increased timeframe takes effect immediately and applies whether you are a UK or non-UK resident.

## Pensions and savings

There were no major updates to pensions and savings rates and arrangements in the Chancellor's speech. Indeed, in the full Budget document the section dedicated to pensions and savings runs for around only half a page of the 200-page publication, indicating that the government's priorities currently lie elsewhere.

**What** Suspension of the State Pension 'Triple Lock'

**When** April 2022

**Comment** The Triple Lock guarantees that the State Pension increases by whichever is greater out of average earnings, CPI or 2.5%. There is concern that the post-pandemic recovery will result in average earnings displaying a rise of as much as 8%, so the government has moved to temporarily suspend the Triple Lock for 2022-2023. Instead a 'Double Lock' will operate, with the State Pension rising by the higher of CPI or 2.5%.

**What** Unchanged limits for savings tax band, ISAs and Junior ISAs

**When** April 2022

**Comment** Next year's saving allowances remain unchanged with savings income that is subject to the 0% starting tax rate staying at £5,000, the adult ISA limit remaining at £20,000 and the Junior ISA limit staying at £9,000.

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## Pensions and savings *continued*

**What** Defined contributions pensions charge cap

**When** Consultation announced

**Comment** The government is looking for ways to encourage institutional investment in private businesses. Following the launch of auto-enrolment, the defined contribution pension schemes that launched as a result had a charge cap applied to them of 0.75% of an individual's funds under management.

This consultation will review whether lifting the cap would allow pension funds to "better accommodate well-designed performance fees to ensure savers can benefit from higher return investments, while unlocking institutional investment to support some of the UK's most innovative businesses."

Essentially, would a change to the cap result in better returns for savers and more money invested in innovative businesses? Watch this space.

## Business investment and taxation

Business rates were the big focus of the business section of the Budget, with the Chancellor describing his announced reforms as ‘the biggest single-year tax cut to business rates in 30 years’.

**What** Business rates reform

**When** From 2023

**Comment** A review of business rates was promised in the Conservative manifesto and the findings and actions from those findings were revealed in the Chancellor’s speech. Business rates, Mr. Sunak said, raise £25bn annually, so the Chancellor was loath to scrap them altogether instead promising to make them fairer and timelier.

In detail, this means there will be more revaluations, happening once every three years, from 2023. There was also an investment relief for businesses who adopt green technologies, like solar panels. There was also acceptance of a CBI and Retail Corporation recommendation that businesses would pay no extra rates on property improvements for 12 months. Mr. Sunak pointed out that hotels adding extra rooms or factories expanding would all be examples where this move would benefit business.

**What** The planned increase in business rates multiplier was cancelled

**When** Previously planned for the next tax year beginning April 2022

**Comment** This move was to help businesses immediately, ahead of the planned rates reforms coming into effect in 2023. The Chancellor stated this cut was worth £4.6bn to businesses over the next five years.

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## Business investment and taxation *continued*

What	At least 50% business rate relief for retail, leisure and hospitality
When	2022-23
Comment	This was again designed to help businesses, applying to next year's rates bills and ahead of new rate reforms in 2023. A measure clearly planned to help businesses still recovering from the impact of the pandemic. As the Chancellor said, it would benefit "pubs, music venues, cinemas, restaurants, hotels, theatres, and gyms", which we know have all been hit hard over the last 18 months.

What	Changes to R&D tax relief
When	April 2023
Comment	The R&D tax relief regime has been expanded to cover the cost of cloud computing and data. However, there was also potentially bad news for those claiming the relief, with the Chancellor revealing a renewed focus on domestic R&D activity.

From 2023 the UK R&D relief system will mirror the approach of the US, Australia and others in focusing on R&D activity that takes place within the domestic market. UK businesses claimed relief on £47.5bn of R&D spending in 2019, according to the government's figures, but only £25.9 billion of this R&D was carried out in the UK.

Look for the government to announce more specifics of how the relief scheme will treat domestic vs non-domestic R&D spending soon.

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## Business investment and taxation continued

**What** Annual investment allowance extended

**When** March 2023

**Comment** The annual investment allowance is designed to encourage business investment and make tax simpler for businesses investing between £200,000 and £1million. The Chancellor announced that the allowance would be extended and would now not end until March 2023.

**What** Scale-up Visa

**When** Spring 2022

**Comment** The new Scale-up Visa is designed to allow businesses access to highly qualified and skilled international workers. The full details were not revealed, but applicants will need to pass language proficiency tests and earn at least £33,000.

**What** Reformed Tonnage Tax regime for the shipping industry

**When** April 2022

**Comment** The Tonnage Tax is a form of corporation tax for shipping companies. Established in 2000, the Chancellor announced 'substantive reforms' to boost the number of shipping companies headquartered in the UK. The lock-in period for companies, for example, will reduce from 10 years to 8 years.

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## Business investment and taxation *continued*

**What** Banking corporation tax surcharge

**When** April 2023

**Comment** Announcing the outcome of a review into how much banks should pay in extra corporation tax, the Chancellor put the figure at a 3% surcharge over the standard rate, from April 2023, when the main rate of corporation tax rises to 25%. The 28% banks will pay is an increase from 27% previously. The annual allowance before the surcharge kicks in was set at £100m, to assist the entry into the market of challenger banks.

**What** Cross-Border Group Relief (CBGR)

**When** 27th October 2021

**Comment** The CBGR and other related loss reliefs are to be abolished in order to 'protect the UK Exchequer against unfair outcomes'. The CBGR is the result of an EU law and therefore something the UK no longer needs to abide by, following Brexit. The result will be 'equal treatment of companies in EU and non-EU countries.'

## Other measures

### Overseas aid

- What** A return to the previous commitment of 0.7% of national income
- When** By the end of this parliament, in 2024-2025
- Comment** A political 'hot potato', there was a great deal of debate and disagreement when the government cut overseas aid spending from 0.7% of national income to 0.5%. Rishi Sunak announced that the fiscal measures put in place to test whether a return to 0.7% would be possible would now be met before the end of this parliament, meaning spending could return to its previous level.

### The UK's infrastructure

- What** Various infrastructure updates
- When** Ongoing commitments
- Comment** The government has made a lot of their infrastructure investments in recent budgets and, whilst this budget was no different, most announcements were updates based on where and how the Spending Review will allocate funds, following the National Infrastructure Strategy of 2020.

Of note was the fact that the new Infrastructure Bank, announced in a previous Budget, made its first ever investment on Monday, just two days before Rishi Sunak stood to deliver this speech. The investment of £107m was made to support offshore wind in Teesside, just a few days before the UK hosts the United Nations Climate Change Conference - COP26. Good timing all round.

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## Other measures continued

### Education

**What** Lost learning and skills spending

**When** Skills spending to be delivered over this parliament, by 2024-2025

**Comment** Skills spending was highlighted during Mr. Sunak's education section, as he announced a 42% cash increase (26% in real terms) in skills spending. The money will, in part, be spent on quadrupling the number of places on Skills Bootcamps and introducing the Multiply programme to boost adult numeracy.

The money to support 'lost learning' due to the pandemic received little attention during the speech, but was covered in the Budget publication. A new package of £1.8bn is mentioned, bringing the total spending on 'education recovery' to £4.9bn since the academic year 2020/21, according to the government's figures.

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## Other measures *continued*

### Excise duties

**What** Alcohol duties

**When** February 2023 for the first four points of the Chancellor's plan, immediately for the final point

**Comment** The Chancellor warned the opposition not to accuse him of playing 'beer barrel politics', but his alcohol duty reforms were big news for drinkers and the leisure and hospitality industries and will probably therefore create some of the following day's headlines.

The current system, Mr. Sunak said, was 'a mess', as he introduced a five-point plan of 'radical simplification'.

1. The number of main duty rates reduces from 15 to 6 under a 'common sense' system where the stronger the drink, the higher the rate.
2. The small producer relief is to be an extension of the small brewers relief, to help small, independent brewers.
3. The system will be modernised to reflect how people drink today. Prosecco, for example, is drunk much more frequently nowadays, so the higher sparkling wine duty no longer makes much sense vs regular wine.
4. Draught relief for pubs will grant a lower rate (5% cut) of duty on draught beer and cider, aimed at benefiting community pubs. The Chancellor called this a '£100m investment in British pubs'.
5. And finally, the planned duty increases on whisky, wine, cider and beer were cancelled, with immediate effect.

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## Other measures *continued*

### Transport

**What** Fuel duties

**When** Cancelled for April 2022

**Comment** With fuel prices at their highest in 8 years, the planned rise in fuel duty was cancelled. 12 years of frozen rates equates to an average annual saving of £1,900 per car driver, according to the Chancellor.

**What** Supply chains and HGV driver shortages

**When** Various timescales

**Comment** The Chancellor addressed the HGV driver shortage, which is impacting supply chains, by covering a series of measures, some of which had been previously announced. These included issuing 5,000 short-term, temporary visas, freezing Vehicle Excise Duty (VED) for HGVs and suspending the HGV road user levy for another 12 months from August 2022.

**What** Air passenger duty

**When** April 2023

**Comment** Flights between the home nations will be subject to a lower rate of air passenger duty, set at £6.50. This will lower the duty paid by 9 million passengers a year, benefiting, the Chancellor said, both businesses and families.

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## Other measures *continued*

### Wages and support

<b>What</b>	Public sector pay rises
<b>When</b>	Over the next three years
<b>Comment</b>	Given that public sector pay has recently been frozen, the announcement from the Chancellor that public sector workers will see pay rises over the next three years is almost certainly welcome. There is no detail yet on what percentage these rises will be as the government will be seeking recommendations from Pay Review Bodies
<b>What</b>	National Living Wage increase
<b>When</b>	1st April 2022
<b>Comment</b>	The National Living Wage will increase to £9.50 per hour, a pay rise worth over £1,000 in gross pay per year to some.

## Conclusion and reactions

As you would expect, the Chancellor's speech received its fair share of criticism, and not just from Rachel Reeves, standing in for Labour leader Keir Starmer who had tested positive for Covid.

Neil Leitch, of the Early Years Alliance, said the funding "goes nowhere near what is needed to safeguard the future of the sector" and described the cost to nurseries of the NLW increase as "huge."

Jace Tyrell, CEO of the New West End Company, said it was "encouraging" to see the Chancellor finally act on business rates but said that rates were still too high overall and the changes "simply don't meet the manifesto commitments to reduce the burden of business rates."

Tony Danker of the CBI said that the Budget "did not go far enough to deliver the high investment, high productivity economy the Government wants."

A glass was, perhaps, raised in the pub sector as they toasted the cut in draft beer duty and the simplification of alcohol taxation. What the Daily Telegraph described as the 'movers and shakers in the scientific community' also broadly welcomed the timetable and 'upward trajectory' for science spending.

But there was criticism of the Budget from the Institute of Fiscal Studies. The tax burden would continue to increase, they said, stating that there was now "clear blue water between now and any time in the past." Perhaps just as worryingly, they pointed out that the projections for disposable income "are actually awful." Paul Johnson, Director of the IFS, said that "deep in the bowels" of the Budget was an expectation that household disposable income would be "almost stagnant" over the next five years, growing by just 0.8% each year.

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## Conclusion and reactions *continued*

Every Budget speech brings with it a raft of numbers and – as we saw with the OBR’s prediction on unemployment – they can sometimes be wildly inaccurate. On the face of it, the predictions in the Chancellor’s speech look promising, but we would do well to treat them with caution.

Yes, employment and growth are rising, debt and borrowing are falling. But, as the Chinese saying has it, we ‘live in interesting times.’ No one can predict what impact the recent rise in energy prices will have, with the cost of oil, coal and gas doubling.

The Chancellor was visibly animated as he ended his speech: “As we look towards the future, my goal is to reduce taxes ... to level up to higher skills ... to deliver a stronger economy for the British people.” But he has little control over the cost of energy and what may yet happen with the pandemic when winter arrives.

Will he be back in March with another round of figures and another set of forecasts?  
No one would bet against it...

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