SPRING BUDGET 2023

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Finding a coherent message on "a budget for growth"

Yesterday, Jeremy Hunt announced to the House of Commons that he had "a budget for growth", and unveiled a series of measures on childcare, pensions and disability benefits as part of a plan to help people get back to work, encourage investment in the UK economy and deliver on the priorities set by the Prime Minister.

Despite his numerous and significant fiscal interventions as Chancellor, it was in fact Hunt's first Budget Statement. It was perhaps easy to forget that it's been less than four months since Hunt delivered his Autumn Statement – one of the most austere financial statements given by any Chancellor - where he outlined £55 billion worth of tax rises and public spending cuts in a determined attempt to restore fiscal and market credibility. In yesterday's statement, by contrast, the Chancellor sought to provide some reassurance that the difficult decisions to deliver stability had been made and that he could now focus on "long term, sustainable, healthy growth" that could provide job opportunities and fund the NHS and schools.

This plan will have to be delivered amid, what remains, a very challenging economic backdrop – with weak economic growth, inflation remaining high and falling living standards. That said, recent economic data has clearly been better than some had expected. The OBR have now forecast that the UK will not technically enter recession this year and inflation is expected to fall throughout the year, helped in part by lower wholesale gas prices. The fiscal outlook was also more positive, with knock-on effects on lower energy prices reducing costs for the government's Energy Price Guarantee subsidy scheme, providing the Chancellor with greater 'headroom' on public finances.

KEY ANNOUNCEMENTS

- Corporation tax to increase from 19% to 25%.
- Lifetime allowance for tax-free pensions saving (currently set at £1.07million) to be abolished and the tax-free yearly allowance for pension pot to rise from £40,000 to £60,000.
- 12 Investment Zones across the UK with £80m in funding over five years, including tax reliefs.
- Energy price guarantee will be extended for three months at its current level.
- £20bn to support carbon capture and storage projects over the next two decades, and nuclear power to be classed as "environmentally sustainable".
- Replacement to the super-deduction, with companies able to deduct investment in new machinery and technology to lower their taxable profits.
- £4bn expansion of 30 free hours of childcare for one- and two-year-olds.
- £63m for programmes to encourage retirees over 50 back to work, "returnerships" and skills boot camps.

Despite these small grounds for optimism, the months ahead are unlikely to be plain sailing for the government. Few people think the UK economy is in good shape. The consequences of the war in Ukraine, the lasting effects of the pandemic, the impact of Brexit, ongoing structural weaknesses and the market turmoil caused by Hunt and Rishi Sunak's predecessors (Liz Truss and Kwasi Kwarteng) have been cited by the OBR and others as key reasons for the lack of growth. The relative importance of these factors is clearly a matter for political debate, but the government, still trailing Labour by 20 points in the polls, is acutely aware that turning this situation around, easing pressure on households and being trusted on the economy is a necessary condition for the Conservatives to have a fighting chance at the next election.

So, yesterday's statement was an opportunity for the Chancellor, keen to demonstrate to voters that there is a coherent plan for delivering growth. And it was noticeable that much of the Chancellor's speech and his headline measures revolved around a specific theme – that of increasing the size of Britain's workforce. In his statement, Hunt said that his plan would focus on "tackling labour shortages that stop businesses recruiting" and "breaking down barriers that stop people working". In addressing these barriers, the Budget focused on three key groups – the over 50s, working parents and the disabled and sick.

On the over 50s, Hunt said that scrapping the lifetime tax-free pensions allowance and raising the annual allowance would encourage older people to carry on working. For parents, the expansion of free childcare for one and two-year-olds in England would help mothers to stay in work. In addition, a new Universal Support programme to help disabled people and those with long-term health conditions get back to work.

Another significant measure on labour markets was outlined in the Budget 'Red Book' (although strangely absent from Hunt's speech) on the issue of migration. You may not have guessed it from government rhetoric in recent weeks, but it has been government policy to increase immigration to address labour shortages. The Budget has done this by amending the Shortage Occupation List (SOL) to allow more construction firms to recruit from overseas.

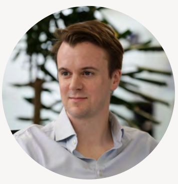
The economic rationale for getting more people back to work is clear. OBR figures show that 500,000 working age people have left the workforce since the pandemic, which has clearly had an impact on growth rates.

Outside the main issue of work and labour markets, the Chancellor focused his measures on increasing business investment and supporting UK science and technology innovation. He made some eye-catching announcements on creating new investment zones across the country and reforming the ways markets can invest in technology companies. Hunt's measures amounted to a giveaway of £20bn a year – a not insignificant amount for a Chancellor who is also committed to reducing borrowing and the national debt. A significant chunk of this spending was dedicated to the provision of capital allowances, to cushion the impact of the upcoming corporation tax rises on business investment. Other major measures on the balance sheet included the scrapping of the planned rise in fuel duty and extending the Energy Price Guarantee until June, as well as a substantial increase in the level of defence spending.

A key question of course is whether "a budget for growth" will actually deliver any growth. Not short of critics, Keir Starmer called the measures a "sticking plaster", while Conservative backbenchers and former ministers such as Jacob Rees-Mogg criticised the Chancellor for not doing enough to cut taxes and not reversing the corporation tax rise – a significantly unpopular measure within parts of the Conservative Party.

From both the Prime Minister and Chancellor's perspective, however, the main test is whether voters will see these measures as part of a coherent plan over the course of the next 18 months that is turning the economy around and easing cost-of-living pressure on households. Whether that happens is arguably dependent on factors that are largely outside of the government's control, such as global energy prices, the action of central banks on inflation and, of course, ensuring that financial markets and international banks (e.g. Credit Suisse) do not cause further economic turmoil.

If this backdrop becomes favourable, the government will believe that a narrow path remains open for them to shift the polls and revive Conservative Party fortunes ahead of the next election.



BY GARETH JONES

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Labour uses Budget as job interview while most businesses remain in wait-and-see mode

The Budget doesn't tend to have much cut through with the general public or change voting intention. But nonetheless, Opposition Parties didn't let the opportunity pass them by to land their narrative around the need for a change in government.

Perhaps more fervid than usual, Labour leader Keir Starmer criticised the Budget by returning to his tried and tested health metaphor: "After 13 years of his government, our economy needed major surgery, but this Budget leaves us […] stuck in the waiting room with only a sticking plaster to hand. Our country is set on a path of managed decline, falling behind our competitors – the sick man of Europe once again."

Beyond that, this was a job interview for Labour and another chance to drive home the narrative around the party as the alternative 'Government in waiting'. At one point, Starmer suggested the government and the Chancellor had "time and again" come round to Labour's position and Starmer "was waiting for him [Jeremy Hunt] to match Labour's ambition".

The Liberal Democrats and the SNP honed in on the energy crisis as their line of attack. The Lib Dems suggested in their evening circular the "Chancellor could have done so much more, if he cared enough", calling the Conservative government "so out of touch they might as well be on a different planet." The SNP said, "the government could have gone further by mandating the regulators to stop the blatant price gouging and profiteering by energy and telecoms companies." Given the election map as it is, Labour faces a steep path to outright victory. The Lib Dems could be potential coalition partners in a Labour led Government if the poll lead holds however, they will be wary of a partnership given they were burnt during the Conservative led coalition under David Cameron. While the SNP on the other hand is currently focussed on their leadership contest and the direction of the party moving forward in a post-Sturgeon era.

Business reacted much better to the Budget by comparison. The CBI praised the "strong second act in the Chancellor's plan for stability and growth". UK Hospitality breathed easier after current levels of energy support were maintained. UK Finance generously spoke of how it supported growth.

Metro Mayors and Local Government also welcomed the announcements on devolution and funding. Investment and pensions announcements were similarly broadly welcomed, with health trade bodies embracing the pensions announcements for skilled NHS staff in particular.

On the more critical end, the Institute of Fiscal Studies nodded to striking public sector workers, summarising the Budget as "money for motorists, but not for nurses, doctors and teachers". Given the emphasis on getting the labour market moving, the IFS reaction on childcare particularly stung, suggesting the childcare package was expected to "only get a few tens of thousands more mothers mostly back into work". The Green Party's Caroline Lucas addressed the elephant in the room that "Hunt's offer on childcare won't be fully implemented until after next general election" and excluded so many, that a universal offer would have been better.

Announcements in the energy space – particularly nuclear and CCS - were welcomed but renewable energy sector representatives such as REA pointed out that little was offered for renewables, deeming this as a missed opportunity. This was also noted by those who had hoped to see items on the agenda around the green transition in other sectors, while Transport bodies welcomed the fuel duty cut as a mechanism to support ailing businesses.

Other sectors such as tech, housing and retail gave a mixed reaction, saying there were some things to welcome but more was needed. TechUK felt more was needed on semiconductors and lamented the only partial reversal of R&D tax credit cuts. The lack of announcements impacting on the housing market was noted. The BRC felt snubbed that one of the "biggest drags to retail investment, which is oncoming regulatory burdens heading down the track" went unaddressed which risked a crash in business investment and further inflationary pressures.

The Office for Budget Responsibility have said that the UK will now not enter a technical recession this year. With inflation set to reduce to 2.9% by the end of the year, opposition parties will be looking at their election strategies and how to attract business towards them.

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ABOUT SEC NEWGATE

SEC Newgate is an insight-driven global strategic communications and advocacy group. Our advice is delivered by c.1,200 employees across five continents.

If you have any questions or would like to discuss how the measures announced in the Budget 2023 affect your organisation, please contact: publicaffairs@secnewgate.co.uk