**"Today's Budget does not draw a line under COVID, but it is a Budget that will prepare us for a post-COVID "age of optimism"."**

Chancellor Rishi Sunak gave his much anticipated Budget speech yesterday. As one might expect, there was much political rhetoric.

He said that the Budget would not draw a line under Covid-19, but it was a Budget for a new age of optimism, helping to rebuild the economy and leading to higher wages, higher skill sets, increased productivity, stronger public services, a more vibrant community and safer streets. He declared his Budget the foundation for a stronger economy with the only limits to the UK's potential being how much effort its subjects were prepared to put in, and how many sacrifices we would be prepared to make.

With a strap line of "Growth Up, Jobs Up and Debt Down", he has tried to please just about everyone in the UK with a philosophy of spend rather than re-trench. Spending on just about everything – infrastructure, NHS, schools, police, local government, research and development, housing, child care – and so it goes on.

So, how will this be funded? Apart from reminding us of the already announced increase in corporation tax in 2023, the plan appears to be to fund the additional expenditure through a general increase in tax take arising from economic growth. Is that feasible?

Given the labour and skills shortage that exists, I do have my concerns. There are plans to recruit 50,000 additional nurses and 20,000 police officers. But where will these people come from? We know all about the current shortage of lorry drivers, care workers, and workers in the hospitality industry.

Much to my surprise, no mention was made of capital gains tax or inheritance tax. Business rates and a few duties were tweaked, but the only "tax" in for an overhaul is alcohol duty!

So, with little on tax and much about public spending, our summary, below, deals mostly with the spending plans.

With apologies for being a bit negative, to my mind, there is no doubt that businesses and individuals are in for a tough time. It is the Bank of England's task to control inflation through interest rates. An increasing cost base (wages and energy costs) and supply shortages will push up prices, which pushes up inflation. It is self-perpetuating. The Bank will surely increase interest rates, but by how much?

Whatever happens, we at MFW are here to help you to navigate your way through it all.

**Ian Pascall, FCA – Senior Partner**
**28 October 2021**

## Rising inflation

In September of this year, inflation was 3.1% and the Office for Budget Responsibility (OBR) is expecting inflation to average 4% over the next year. Mr Sunak explained the reasons for the rise as follows:

1. As economies across the globe re-open the demand for goods has outstripped supply and,
2. The global demand for energy has surged at a time when supplies have also been disrupted leading to higher energy prices.

He explained that following talks with other global finance ministers it was clear that these issues were neither unique to the UK nor could be addressed alone. He committed, however, to do all he could to ease these issues announcing a number of measures. These included issuing temporary visas and tackling the testing backlog for new HGV drivers to address the lorry driver shortage, funding to improve lorry park facilities, extending the HGV Levy suspension for a further year (until August 2023) and, freezing Vehicle Excise Duty for heavy goods vehicles.

The Chancellor also acknowledged the need for further support for working families and the need to improve public spending and capital investment whilst also keeping control of inflation. He stated that he had yesterday written to the Governor of the Bank of England (BoE) to remind him of their remit to achieve low and stable inflation, and sought to reassure the country by stating that the BoE had a strong track record in this regard.

**The UK economy**

The OBR now expects recovery to be quicker than previously expected and forecasts that the UK economy will return to pre-Covid levels at the turn of the year. As a result, the OBR growth forecasts have been revised up from 4% to 6.5% this year and 6% for 2022, and then 2.1%, 1.3% and 1.6% over the next three years. The OBR also forecast that business investment will be up over the next five years and that the long-term effects of Covid scarring will reduce from the previous forecast of 3% to 2%.

**Unemployment**

The OBR predicted in July last year that unemployment would peak at 12%. They now expect the peak to be much lower at 5.2% meaning that over 2 million fewer people will be out of work than previously feared. The Chancellor also reported that wages are rising and compared to February 2020 wages have grown in real-terms by almost 3.5%.

**Public finances**

Borrowing caused by the emergency Covid measures has left us with a deficit greater than any time since WWII. To help strengthen the country's finances the Chancellor set out a new Charter for Budget Responsibility outlining two rules:

1) That the underlying public sector net debt excluding the impact of the BoE must, as a % of GDP, be falling and,
2) In normal times, the State must only spend to invest in our future growth and prosperity, everyday spending must be met through taxation.

Mr Sunak said that both rules must be met by the third year of every forecast period giving the flexibility to respond to a crisis whilst credibly keeping our public finances under control. The House will vote on the Charter in due course.

**Debt**

The OBR reported that the government's fiscal rules have been met. The underlying debt forecast is 85.2% of GDP this year then 85.4% of GDP in 2022/23 before peaking at 85.7% in 2023/24. Debt then falls in the final three years of the forecast from 85.1% to 83.3%. Borrowing as a percentage of GDP is forecast to fall in every single year from 7.9% this year to 3.3% next year and thereafter to 2.4%, 1.7%, 1.7% and 1.5% thereafter.

The Chancellor however warned that just a 1% point increase in inflation and interest rates would cost the UK economy a further £23bn.

In his Budget the Chancellor set out four fiscal judgements

1) First, meet the fiscal rules to protect the economy against economic risks.
2) Continue supporting working families.
3) Meet the UK's obligations to the world's poorest by returning to a spend of 0.7% of our national income on overseas aid by 2024/25.
4) Increase spending by over £150bn this century, an increase in real terms of 3.8%.

**Healthcare**

At the start of this parliament resource spending was £133bn. Yesterday's Spending Review confirmed that by the end of this parliament this would increase by £44bn to £177bn. Extra revenue to be generated by the new Health and Social Care Levy (https://mfw.co.uk/2021/09/16/social-care-reform-national-insurance-increases/) with extra spending helping to:

- Build 40 new hospitals and upgrade 70 more.
- Provide more operating theatres to tackle the backlog.
- Provide 100 Community Diagnostic Centres.
- Provide 50,000 more nurses and 50 million more primary care appointments.
- Ensure a bigger and better trained workforce.

**Housing**

- £11.5bn to build up to 180,000 affordable homes and a further £1.8bn to bring 15,000 hectares of brownfield sites into use to meet the commitment to invest £10m into new housing and unlock a million new homes.
- £5bn to remove unsafe cladding from the highest risk buildings partly funded by a Residential Property Developers levy, levied on developers with profits over £25m at a rate of 4%.
- The government have already reduced rough sleeping by a third but promised to do more in this Budget committing £640m for rough sleeping and homelessness, an 85% increase in funding compared to 2019.

**Policing and the Law**

- Recruit 20,000 new police officers.
- £2.2bn funding for courts, prisons and probation services including £0.5bn of funding to reduce the current courts backlog.
- Pay for programmes to tackle neighbourhood crime, reoffending, violence against women and girls, victims' services and improve responses to rape cases.
- Over the next three years, the government will also commit £3.8bn to the largest prison building programme in a generation.

**Children**

- £300m for A Start for Life offer for families providing high quality parenting programmes including tailored services for perinatal mental health.
- Funding to create a network of family hubs across the country.
- £170m to pay quality childcare providers more by 2024/25.
- £150m to support training and development for entire early years workforce
- Investing an extra £200m into the Supporting Families Programme and a further £200m per annum to continue the Holiday activities and food Programme.

**Schools**

- An additional £4.7bn by 2024/25 which, combined with plans announced in the 2019 Spending Review, will restore per pupil funding to 2010 levels in real terms, the equivalent of a cash increase for every pupil of more than £1,500.
- More than tripling the amount for children with special educational needs and disabilities to create 30,000 new places.

**Levelling up communities**

- £560m for youth services, enough to fund up to 300 youth clubs across the country.
- Over £200m to build or transform state of the art football pitches across the UK.
- £1.7bn to invest in infrastructure for everyday life in over 100 areas with Scotland set to receive £170m, Wales £120m and the Northern Ireland Executive £50m.

**Culture & Heritage**

- £850m to focus on the restorations of museums, heritage and galleries.
- Up to £2m will be used to fund a new Beatles attraction on the Liverpool waterfront.
- Tax relief for all creative sectors – namely theatres, orchestras, museums and galleries – will be doubled until March 2023, returning to a normal rate in April 2024.

**Devolution**

- Through the Barnett Formula, the government has made the decision to increase Scottish government funding on average each year by £4.6bn, the Welsh Government funding by £2.5bn and the Northern Ireland Executive funding by £1.6bn.

**Infrastructure**

Under the government's National Infrastructure Investment Strategy investments of over £130bn in roads, railways, broadband and mobile including:

- £21bn on roads.
- £46bn on railways. The Integrated Rail Plan will be published soon outlining improvements to train times between town and cities.
- Today's Budget provides £5.7bn for London style transport settlements in Greater Manchester, the Liverpool City Region, the Tees Valley, South & West Yorkshire, West Midlands and the West of England.
- Helping local transport everywhere with £2.6bn for a long-term pipeline of over 50 road upgrades together with a further £5bn for local roads maintenance.
- Funding for buses, cycling and walking totalling more than £5bn.

**Invest, discover and invent**

The UK is already a world leader in innovation but the government wants to go further. Steps outlined in the Budget include:

- Maintain target to increase R & D investment to £22bn by 2026/27 with spending, by the end of this parliament, of £20bn per annum.
- Cash increase of 50% in addition to the cost of R & D tax reliefs.
- A commitment to increase spending versus GDP of 0.7% in 2018 to 1.1% of GDP by the end of this parliament.
- Unprecedented funding to core science funding to be £5.9bn per year by 2024/25, a cash increase of 37%.

**Net Zero Strategy**

- £30bn to create new green industries of the future.
- The second Green Bond has just been issued making the UK the third largest issuer of Green Bonds anywhere in the world.
- London recently named as the best place in the world for green finance.
- On Monday the new UK Infrastructure Bank announced its first ever investment - £107m to support offshore wind in Teesside.
- COP26 next week hosting the global finance ministers.
- The government previously launched the Help to Grow Scheme to 'turbocharge' SME activity by starting a new Investment Venture Capital Future Fund.
- A new £1.4bn Global Britain Investment Fund.
- Increases to £1.6bn to the British Business Bank's regional financing programmes, expanding coverage and helping innovative business across the UK get the help they need.
- This Budget also confirms the eligibility criteria for the new Scale Up Visa making it quicker and easier for fast growing businesses to bring on highly skilled individuals
- The Trade Secretary's new Global Talent Network will also identify, attract and relocate the best global talent in the science and tech sectors.

**R & D Tax Reliefs**

The UK has the second highest spending on R & D in the OECD but the Chancellor admitted the system needs to work better. Reliefs have been reviewed identifying two issues, which will be addressed:

1. Reliefs need to reflect how businesses conduct research in the modern world so the government is expanding the scope of reliefs to include cloud accounting and data costs and,
2. Only half of the £48bn claimed in R & D relief is from UK companies. The UK government and taxpayer is therefore subsidising billions of pounds of R&D not happening in the UK. This will be addressed and from April 2023 the scheme will incentivise greater investment in the UK.

**Lifelong learning**

Chancellor Rishi Sunak outlined the need for lifelong learning to increase the skills of the working potential and work towards higher paid jobs. As part of this commitment, a new £560m UK Wide numeracy programme called Multiply will launch to tackle the issue of poor numeracy in a sector of the adult population.

**Corporation Taxation**

- Corporation Tax increase to 25% announced in the Spring 2021 Budget. This change is unaffected and will come into effect from April 2023.
- The increase to the Annual Investment Allowance (AIA) however has been further extended until March 2023.
- The Bank Surcharge within Corporation Tax has been reduced. The 3% surcharge will remain, and the rate will be 28% from April 2023.
- Small challenger banks will see the Annual Allowance increase to £100m.

**Business Rates**

- Business rates will remain but with key reforms to ease the burden and create stronger highstreets.

    1. Make business rates a fairer system with more regular revaluations (every three years).
    2. As called for by the Federation of Small Businesses and the British Property Federation an introduction of a new investment relief to encourage businesses to adopt green technologies such as solar panels. The government will also accept the Confederation of British Industry's recommendations to introduce a new

business rates improvement relief from 2023. Every business will be able to make property improvements and pay no extra business rates for twelve months.

3. Next year's planned increased in the business rates multiplier will be cancelled representing a tax cut worth £4.66bn over the next five years.
4. For one year, a new 50% rate discount for businesses in the retail, hospitality and leisure sectors up to a maximum of £110k.

   These combined measures mean that all retail, hospitality and leisure businesses will receive a discount of at least 50%.

**Duties**

- Now that we have left the EU, the UK Shipping Tonnage Scheme will be reviewed to make it fairer.
- Domestic air travel across the UK will, from April 2023 see a reduction in Air Passenger Duty (APD) providing a boost to regional airports and a reduction in costs to over 9 million UK travellers.
- English airports will see an extension to support for a further six months.
- In a bid to reduce carbon emissions long-haul air passengers travelling over 5,500 miles will see an increase in APD via the new Ultra Long-haul Band.
- A radical overhaul of Alcohol Duty which will:
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    - Slash the number of main duties from 15 to 6. The stronger the drink the higher the duty rate.
    - Encourage small innovative craft producers with new producer reliefs for producers of drinks under 8% in volume.
    - Modernise the alcohol duty system to reflect the way people drink today to end 28% duty on sparkling wines so that they carry the same duty as still wines of the same % volume. Fruit cider duty will also be cut to the same rate enjoyed by apple cider.
    - Supporting pubs – Draught Relief has been announced in the Budget to apply a new lower rate of duty for draught beer and cider. This will apply to drinks served from draught over 40 litres. The Draught Relief duty will be cut by 5% from February 2023.
    - The planned increase from last night of duty for whisky, cider, beer and wine has been scrapped.
    - Planned rises to Fuel Duty have also been scrapped.

**Pay**

- The normal pay setting process will return for public sector workers.
- The National Living Wage for over 23s will increase from £8.91 per hour to £9.50 per hour from April 2022. The National Minimum Wage for workers aged 21 to 22 t the rate will increase to £9.18 (from £8.36), aged 18 to 20 to £6.83 (from £6.56) and workers under the age of 18 to £4.81 (from £4.62). Apprenticeship pay will also increase to £4.81 an hour from April 2022 (currently at £4.30). This will benefit over 2 million of the lowest paid workers in the country.

**Universal Credit Taper**

- The current rate is 63% meaning that for every £1 a person earns their Universal Credit will be reduced by 63 pence. In a move yesterday, the Chancellor has cut the taper rate by 8% to 55%.
- This rate will be introduced as soon as possible over the next few weeks and by no later than 1 December 2021.