

Clarity®

The Budget 2023



Budget overview

Building on his Autumn Statement that aimed to bring stability back to the UK economy, Chancellor Jeremy Hunt's March Budget was focused on providing voters with a positive economic outlook ahead of the upcoming General Election in 2024/5.

While the Chancellor was keen to highlight the more positive economic situation and the avoidance of a technical recession, the speech was delivered against an economic backdrop that will still see real household disposable incomes fall over the next two years, with little room for manoeuvre in a tight fiscal position. Structured around his four Es (Everywhere, Enterprise, Employment, and Education), the speech was geared at delivering on the PM's key priorities for 2023, especially on halving inflation, growing the economy and reducing debt.

With few improvements to personal taxation (other than pensions reform for higher-income earners and measures on expanding free childcare), most of the key themes of the Budget were investment in science and technology, as well as supporting businesses across the UK.

Overall, the Budget statement focussed on highlighting the improvements to (admittedly very negative) economic forecasts, and that the Conservative Government was successfully leading the economy through challenging times. Unlike many of his Conservative predecessors, Hunt was keen to take the credit for the achievements of previous Tory Governments, and demonstrate the value of their time in office.



② The Budget in numbers

-0.2%

Forecast growth this year – though the UK is now expected to avoid a technical recession.

2.5%

A planned increase of defence spending as a percentage of GDP. this is above NATO-required 2%.

-7.8%

The expected percentage point fall in inflation at year-end. This is fall from 10.7% to 2.9%.

25%

The rise to headline Corporation Tax goes ahead as expected.

£80m

Support available for 12 new Investment Zones across the country.

∞

The new lifetime tax-free pensions limit, with the abolition of the current £1.07m limit.

30

Hours of free childcare for children aged 9 months to 4, to be introduced.

£2,500

The average energy bill, with the Energy Price Guarantee extended for three more months.



Sector-by-sector

Economy

The Chancellor's main economic message was not necessarily that the economy was going very well, but rather, that previous forecasts were too pessimistic and the UK is recovering from its economic challenges faster than expected. He claimed in his speech that his plan was working.

- Against earlier forecasts, the OBR now believes that **the UK will avoid a recession this year**, but will shrink by -0.2% and **growth will return next year**.
- **Inflation is set to fall sharply, from 10.7% in 2022, to 2.9% by the end of this year**. This would meet the Government's mission to halve inflation however many critics claimed that this would happen anyway.
- **The Government is now expected to reach its target of reducing debt as a percentage of GDP by 2028**, but with a very tight margin for error.
- **Unemployment is not expected to rise by more than one point.**



© Tax and spending

The Chancellor highlighted the Government's intention to be a dynamic enterprise economy, setting out his intention for a competitive tax regime, to become the most pro-business large economy, and attract investment.

Tax and spending are key aspects of the Government's plan for growth.

- **The top rate of Corporation Tax will increase from 19% to 25%.** However, this is the lowest in the G7 and is predicted to generate an extra £18bn pa.
- The Government is introducing a new, but temporary, policy of a tapered **full capital investment allowance**, replacing the Super Deduction:
 - All qualifying plant and machinery can be offset against taxable profits, aimed to make it more attractive to invest in new equipment.
 - Without it, the firm can only deduct a small fraction of the cost of investment each year over the accounting lifespan of that investment.



© Tax and spending (con'd)

- For small businesses, the **Annual Investment Allowance will increase to £1m**.
- SMEs will be able to claim a **new enhanced R&D credit**, allowing an increased rate of relief for loss-making R&D-intensive SMEs of £27 rebate for every £100 spent.
- The **Lifetime Pensions Allowance will be abolished**, and the pensions annual tax-free yearly allowance will increase from £40,000 to £60,000.
- The Autumn Statement 2023 will include a plan to increase investment in high-growth firms.
- **Fuel duty is frozen** - with the 5p cut to fuel duty, due to end in April, kept for another year

Overall, the Budget aimed to increase growth by making the UK attractive for businesses with tax cuts for both corporations and SMEs. However, there were limited announcements on personal taxation, raising criticisms of “fiscal drag” on the individual tax burden.

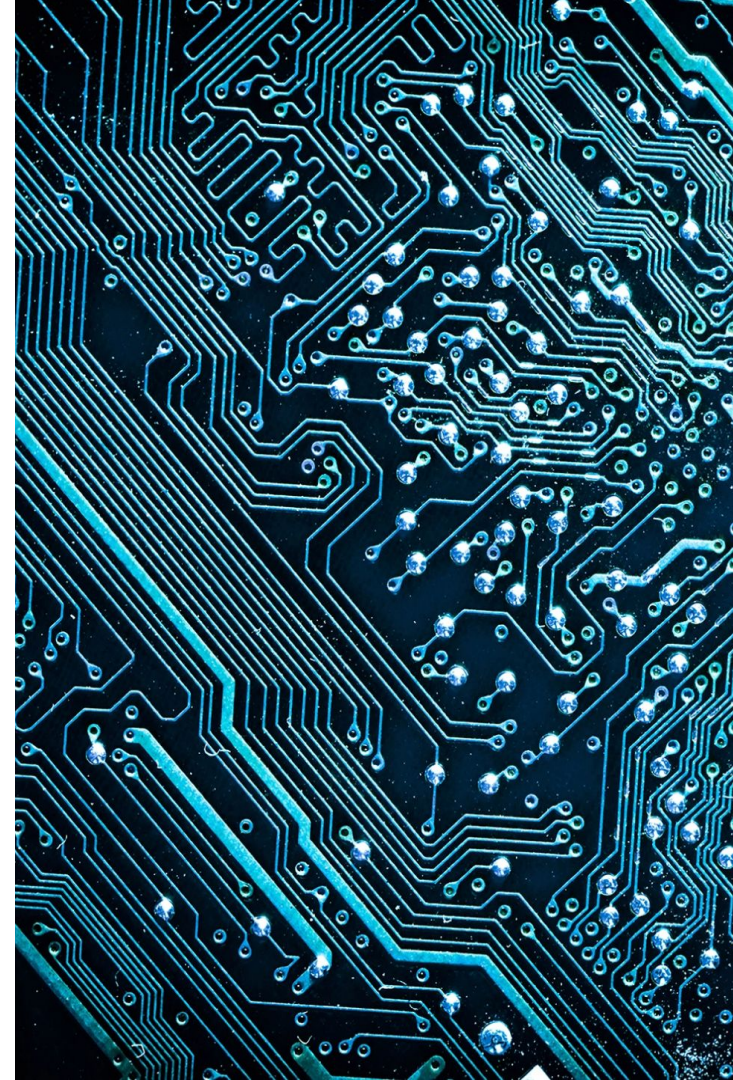


Technology

The Chancellor made several mentions of technology during his Spring Budget, including his aim to remove obstacles by “harnessing British ingenuity to **make [the UK] a science and technology superpower.**”

The main announcements for technology were:

- **Investment of £80m in 12 Investment Zones** - this is aimed to catalyse growth in certain areas of the UK, driving growth in key future sectors – including technology. They will be led by partnerships between local authorities, universities and businesses, but lack some of the tax and planning clout that the Truss government had planned.
- Encouragement of businesses to **invest in R&D** (see previous slides) to create technologies to enhance living standards.
- Creation of the **Long-Term Investment for Technology and Science (LIFTS)** to support investment for cutting-edge companies.
- The publication of the **Quantum Strategy** – a 10-year vision and actions for the UK to lead the quantum-enabled economy.
- Strengthening of the UK’s Artificial Intelligence (AI) position by accepting all nine digital technology regulation recommendations from the Government’s Chief Scientific Adviser, Sir Patrick Vallance in the Autumn Statement.
 - The Government will aim to **lead on AI regulation**, as well as the future of web technology by maximising its potential, while spurring on growth and innovation. Hunt also stated he will seek to empower people to influence how their data will be used.
 - An **AI Foundation Models Taskforce will be established** to advance UK sovereign capability and ensure the UK is at the forefront of technology.
 - **Launching an ‘AI sandbox’** to strengthen market access for key innovators.
 - Committing approximately **£900 million** of funding to implement findings from a *Future of Compute* review for an exascale computer.
 - In addition, an announcement was made for a **new national AI award – called the Manchester Prize** – for the “most groundbreaking AI research” by an individual or a team. This will run for the next 10 years, and the winner will receive a £1 million prize.



Health

Contrast to initial predictions, surprisingly health was not a key theme of this Budget. Despite Hunt's health background, as well as the ongoing pressures in backlog and industrial action facing the NHS, there were few key announcements on health. The announcements included:

- Following the Vallance regulatory review of life sciences, from 2024 the **MHRA regulator will move to a new model**, with a “fully operational swift approval process” for technologies approved by other bodies and nations.
 - Hunt pledged **an extra £10m of funding** over the next year to streamline the regulator.
- **12 new Investment Zones across the UK were announced**, with Government looking to increase “bold local partnership between local Government and research” to help improve and incentivise innovation.
 - Each Investment Zone will have access to interventions **worth £80m over the five years**, including tax reliefs and grant funding.
- Hunt announced the **abolition of the lifetime pensions allowance**, to stop over 80% of NHS doctors receiving a tax charge.
- On R&D, Hunt announced an enhanced tax credit for R&D companies.
- In Hunt's drive to increase employment a number of **support measures were announced**, including plans on disability welfare reform, Universal Support and mental health investment.
- The highly-anticipated workforce plan is due to be published “shortly”.



Energy

The Chancellor said that “cheap and reliable energy” was a key part of the UK’s future growth prospects, and highlighted the Government’s energy bill support and measures to secure domestically-produced energy. Key measures energy measures announced include:

- The **Energy Price Guarantee** – the energy bill support scheme for households – will be extended for a further 3 months. This will keep the average bill at £2,500 – a further £160 saving.
- £200m will be provided to **align the bills of the 4m households with pre-payment meters with the equivalent direct debit.**
- **£20bn of support over the next 20 years for carbon capture, usage, and storage.**
- **Nuclear power will be classed as “environmentally sustainable”,** opening it up to the same incentives as renewables.
- The launch of **Great British Nuclear** to help drive the rollout of new nuclear provision. The aim is for nuclear to produce 25% of the UK’s electricity by 2050. There will also be funding to develop and test the nascent industry of **small modular reactors.**



Political reaction

Labour leader Sir Keir Starmer used a number of metaphors in his response to the Budget to describe the Government's "sticking plaster politics". Starmer described the economy as requiring major surgery but is stuck in the waiting room with only a sticking plaster to hand.

Referring to the UK as the "sick man of Europe", Starmer accused the Conservatives of failing to grip the long-term problems. He also stated that the Labour Party had brought the Conservatives "to their senses" with Hunt including a number of Labour policies in the budget.

SNP Economy Spokesperson Stewart Hosie accused the Government of failing to address the long term economic decline.

Liberal Democrat Spokesperson, Sarah Olney, called the Government "reckless" for failing to extend business energy support.



