

A close-up photograph of a hand in a dark suit jacket gripping the gold handle of a red leather briefcase. The briefcase is embossed with a royal crest and the text 'CHANCELLOR OF THE EXCHEQUER.'

Newgate Communications  
**Budget Summary**

11 March 2020

CHANCELLOR OF THE EXCHEQUER.

## Overview

On 11<sup>th</sup> March 2020, Rishi Sunak delivered his first Budget as Chancellor, the first since Boris Johnson's decisive election victory in December, the first since the UK officially left the EU and against the backdrop of one of the biggest public health crises in a generation. The new Chancellor has sought to tackle these multiple challenges with one of the biggest-spending budgets in recent years, which set out the following:

- Tackling coronavirus:** The Chancellor opened his statement with a wide-ranging £30 billion package of measures, stating that this was 'an issue above party'. The government's three-point plan included (1) a £5 billion emergency response fund for the NHS, (2) measures to support the self-employed, businesses and vulnerable people and (3) a £500 million hardship fund will provide money directly to Local Authorities. These announcements were made in combination with support measures already announced by the Bank of England which include an emergency cut in interest rates to 0.25%.
- The end of austerity:** This Budget marked the biggest increase in spending for 30 years, with some commentators noting that it felt more akin to one of Gordon Brown's Budgets than the Budget of a Conservative Chancellor. The Chancellor maintained that the Budget met his fiscal rules, with a surplus in every one of the next five years. Crucially, however, he admitted that additional coronavirus measures had not been included in his forecasts, and appeared to hint that there could be a fiscal tightening over the next two years to ensure that his fiscal targets for 2022/23 are met. A pledge was made to review the fiscal framework and report back in the Autumn.
- Levelling up the regions and delivering manifesto commitments:** Keen to deliver on manifesto pledges and demonstrate that this was not purely a 'coronavirus budget', the Chancellor devoted a significant portion of his speech to big-ticket infrastructure investments across the country totalling £600 billion, including £27 billion on the strategic road network and £5 billion on gigabit broadband. This was coupled with announcements to set up Treasury offices in the devolved nations, moving 22,000 civil servants out of London and creating a new economic campus in the North of England.
- A post-Brexit economy:** There was little direct mention of Brexit in the speech. Instead the Chancellor spoke of "*unleashing the power of business*". There was £130 million of new funding to extend start up loans, £200 million for a British business bank, £5 billion on new export loans, and more funding for R&D and life sciences. There will be dedicated trade ambassadors representing the UK's regions around the world. The widely predicted scrapping of Entrepreneurs' Relief did not materialise, with the lifetime limit reduced instead.
- Focus on energy and environment:** With massive investment in the road network announced, rumours that red diesel relief would be scrapped failing to materialise, and fuel duty remaining frozen, this was a much less green Budget than some had predicted. Headline announcements included more money for electric vehicle rapid charging networks, £5.2 billion for flood defences, and £800 million to establish at least two Carbon Capture and Storage Clusters by 2030, together with £640 million for a new fund to protect the natural environment.

## Economic Outlook and Public Finances

**Growth:** The Office for Budget Responsibility (OBR) is forecasting for GDP growth of 1.1% in 2020 – a revision down from 1.4% in the Spring Statement 2019 forecast. GDP growth is then expected to increase to 1.8% in 2021 before slowing slightly, reaching 1.4% in 2024. The Chancellor noted, however, that the OBR had closed its forecast before the spread of COVID-19 in the UK. The Chancellor stated that capacity will shrink and be “*significant impacted... but it will be temporary, and life will return to normal.*”

**Debt:** Compared with the March 2019 forecast, debt as a share of GDP is to be lower in 2020-21, but then higher in all the remaining years of the Budget forecast. Public sector net debt is expected to continue to fall, from 79.5% in 2019-20, to a low of 75.0% in 2021-22 before rising slightly to 75.2% in 2024-25. Public sector net debt is broadly stable across the forecast.

**Borrowing:** Borrowing in 2020 is forecast to be £47.4 billion, £0.2 billion lower than the OBR’s March 2019 forecast. Compared to that forecast, borrowing is lower in 2019-20, but higher in every other year of the forecast. It rises over the forecast period from 2.1% of GDP in 2019-20 to 2.8% of GDP in 2021-22, before falling to 2.2% in 2024-25.

**Deficit:** There is a current budget surplus of £11.7 billion in 2022-23. Net investment is expected to average 2.9% of GDP over 2020-21 to 2024-25 – below the 3% target – while the debt interest to revenue ratio remains below 6%.

**Employment:** Employment is at a record high with the number of people in paid work at 32.8 million in 2019 (an employment rate high of 76.5%). The OBR expects the employment level to increase further over the forecast period, reaching 33.4 million in 2024. The unemployment rate was 3.8% in the three months to December 2019, the joint-lowest in over 40 years.

**Inflation:** The annual rate of Consumer Prices Index (CPI) inflation was 1.8% in 2019, down from 2.5% in 2018. The OBR forecasts CPI inflation to be 1.4% in 2020, gradually rising to 2.1% in 2022 and 2023, and settling at 2.0% by 2024.

**Monetary policy:** The Chancellor said there is to be a coordinated response with the Bank of England, as trialled even this morning with the interest rates, and Sunak welcomed Andrew Bailey who takes up his post on Monday. Expect “*complimentary action*”, with “*maximum impact*”. The Bank of England and PRA have also loosened banks capital requirements for to allow them to take temporary losses without curtailing lending.

## Taxation

The government is increasing the threshold at which employees and self-employed people start paying **National Insurance** contributions from £8,362 to £9,500.

The **annual allowance on pensions** will now taper to £4,000 rather than £10,000 for those on the highest incomes.

**Business rates:** From 1 April 2020, the business rates retail discount for properties with a rateable value of below £51,000 will be increased to 100% and expanded to include hospitality and leisure businesses. The business rates discount for pubs with a rateable value below £100,000 will be increased from £1,000 to £5,000 in response to the COVID-19 outbreak. Any business currently eligible for small business rate relief will be eligible for a £3,000 cash grant. There will also be a fundamental review of business rates, with a report due in the Autumn.

**Fuel duty** will be frozen for another year. **Duties on beer, spirits, wine and cider** will all be frozen for an additional year.

**Air Passenger Duty** rates will increase by £2 for long haul economy passengers, £4 for premium economy, business and first class passengers and £13 for those travelling long-haul by private jets. The government will also launch a consultation on aviation tax reform in Spring 2020.

**VAT** will be exempted from e-publications and women's sanitary products. The government is also establishing an industry working group to review how financial services are treated for VAT purposes.

The government will introduce a new **digital services tax** from 1 April – a new 2% tax on revenues – aimed at ensuring that large international digital media firms pay an amount that reflects the value they derive from their UK user base.

The government has announced that the lifetime limit on gains eligible for relief through **Entrepreneurs' Relief** will be reduced from £10 million to £1 million.

The government also announced a new **Plastic Packaging Tax** of £200 per tonne of plastic packaging that contains less than 30% of recycled plastic.

On **stamp duty land tax** (SDLT), the government announced that it will introduce a 2% SDLT surcharge on non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021, aimed at controlling house price inflation.

## Public spending and key initiatives

### Healthcare

#### Health - Coronavirus

Coronavirus has, understandably, dominated this Budget. From the first line of Sunak's speech, COVID-19 featured heavily, setting out a number of different strands for 'surviving' COVID-19:

#### Support for public services

- **COVID-19 response fund:** The Treasury is creating an emergency response fund. **The funding is initially set at £5 billion** which will be reviewed as the situation develops.
- **Funding for research and development:** The government is providing the **National Institute for Health Research with £30 million of new funding** to enable further research into the disease.
- **Funding for diagnostic testing:** The government will increase the capacity and capability of diagnostic testing and surveillance facilitated by Public Health England with an additional £10 million of new funding to DHSC.

#### Support for individuals

- **Eligibility for Statutory Sick Pay (SSP):** The forthcoming COVID-19 Bill will temporarily allow **SSP to be paid from the first day of sickness absence**, rather than the fourth day, for people who have COVID-19 or have to self-isolate, in accordance with government guidelines.
- **Medical Evidence for SSP:** The Budget announces that the government and the NHS will bring forward a **temporary Budget 2020** alternative to the fit note in the coming weeks. This will enable people who are advised to self-isolate to obtain a notification via NHS111. This notification would meet employers' need for evidence, whilst taking pressure away from General Practices.
- **Support for those ineligible for SSP:** The government recognises that self-employed people and employees below the Lower Earnings Limit are not entitled to SSP and will making it quicker and easier for these people to receive benefits.
- **Hardship Fund:** The government will provide Local Authorities in England with £500 million of new grant funding to support economically vulnerable people and households in their local area.

#### Support for businesses

- **Statutory Sick Pay:** The government will support small and medium-sized businesses by **refunding eligible SSP costs**. This refund will be limited to two weeks per employee for companies with fewer than 250 employees.
- **Business Rates Reliefs:** The government has already announced the Business Rates retail discount will be increased to 50% in 2020-21. To support small businesses affected by COVID-19 the government is increasing it further to 100% for 2020-21. The relief will also be expanded to the leisure and hospitality sectors.
- **Small business grant funding:** To support businesses that do not pay business rates under Small Business Rate Relief (SBRR), the government will provide £2.2 billion of funding for local authorities in England. This will provide £3,000 to around 700,000 business currently eligible for SBRR.
- **Time to Pay:** The government will ensure that businesses and self-employed individuals in financial distress and with outstanding tax liabilities receive support with their tax affairs.
- **Coronavirus Business Interruption Loan Scheme:** The government will launch a new, temporary **Coronavirus Business Interruption Loan Scheme**, delivered by the British Business Bank, to support businesses to access bank lending and overdrafts. The

government will provide lenders with a guarantee of 80% on each loan and will not charge businesses or banks for this guarantee, and the Scheme will support loans of up to £1.2 million in value.

## Health – non-coronavirus

Reconfirmed as the government’s “*number one spending priority*”, the NHS has received a **budget increase of £6 billion in this Budget**. This will increase staffing and improve the recruitment, training and retention of nurses in England, ensuring there are **50,000 more in the NHS and up to 6,000 more GPs and 6,000 more primary care professionals**.

The Chancellor reiterated that there are to be **40 new hospitals**, referred to as “*hospital projects*” in the Red Book.

There are to be **50 million more GP appointments** a year.

The government will also change pensions tax rules to ensure that **NHS staff** across the UK, including senior doctors, whose income is less than £200,000 can **work additional hours** for the NHS without their annual allowance being reduced.

The **Immigration Health Surcharge** will be increased to £624, with a reduced rate for children.

## Infrastructure

The Chancellor acknowledged that the only way to drive the UK’s economic growth and improvements in people’s living standards in the long term is to boost productivity. Infrastructure investment will form a key part of this.

The much-anticipated **National Infrastructure Strategy** will now be published later in the spring. This will set out the government’s proposed investments in infrastructure in more detail.

The second **Road Investment Strategy (RIS2)** will spend over £27 billion between 2020 and 2025. Schemes included in this will include the Lower Thames Crossing and the A46 Newark bypass. This is the largest figure ever invested in England’s strategic roads network.

These improvements will be complemented by upgrades to 15 local roads throughout the country. Included within these schemes are: a link road linking Chesterfield to Steveley, improvements to the A350 in Wiltshire and a new dual carriageway in Warwickshire.

The government is investing £20 million in establishing the Midlands Rail Hub; a project to improve rail infrastructure in the region with additional services and better east-west connectivity.

Five-year funding settlements will be provided for the eight Mayoral Combined Authorities (West Yorkshire, Greater Manchester, West Midlands, Liverpool City Region, Tyne and Wear, West of England, Sheffield City Region and Tees Valley) from 2022-23. **These authorities will also be granted control over transport funding arrangements.**

A **£500 million pothole fund** has been unveiled; the funding represents an increase of 50% to road maintenance budgets.

The Budget committed to investing £5 billion in the rollout of gigabit-capable broadband in the most difficult to reach parts of the country. Gigabit-capable broadband is forty times faster than standard superfast broadband.

The government will also commit £510 million worth of funding to improve phone reception through the **Shared Rural Network**; this funding will be matched by the telecoms industry. The funding means that 95% of the UK's landmass will have a high quality 4G network by 2025.

This Budget did not confirm any further specifics of the Prime Minister's £5 billion pledge to improve bus services and cycling infrastructure. Further details of this will be confirmed once the **Comprehensive Spending Review (CSR)** concludes in July 2020.

## Housing

The Budget announced an additional £9.5 billion for the **Affordable Homes Programme**. In total, the programme will allocate £12.2 billion of grant funding from 2021-22 to build affordable homes across England. This should bring in a further £38 billion in public and private investment. This new five-year programme will help more people into homeownership and help those most at risk of homelessness.

Local authorities will be supported through a **1% cut to interest rates on lending for social housing**, allowing them to invest in their communities. This will make available discounted loans of £1.15 billion for local infrastructure.

The Budget confirms allocations from the **Housing Infrastructure Fund** totalling £1.1 billion for nine different areas, including Manchester, South Sunderland and South Lancaster. These successful bids will unlock up to 69,620 homes and will help to stimulate housing and infrastructure growth across the country. The Budget also announces additional housing investments in York Central, Harlow and North Warwickshire totalling £328 million.

To level up all regions of the country, the Budget launches a new **£400 million brownfield fund** for pro-development councils and ambitious Mayoral Combined Authorities with the aim of creating more homes by bringing more brownfield land into development. The government will shortly invite bids that are ambitious and represent a significant increase in housing supply on brownfield land. The government will consider proposals from areas such as the West Midlands Combined Authority to expand their existing brownfield land fund.

Following the Grenfell tragedy, one of the government's most important objectives is to ensure residents feel safe and secure in their home. Having taken expert advice, the Budget confirms an additional £1 billion **Building Safety Fund** to remove unsafe cladding from residential buildings above 18 metres to ensure people feel safe in their homes.

The government will introduce a **2% Stamp Duty surcharge** on non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021. The money raised from the surcharge will be used to help address rough sleeping.

There will be around **£650 million of funding** to help rough sleepers into permanent accommodation. This will buy up to 6000 new places for people to live and enable a step change in support services.

The Housing Secretary Robert Jenrick will announce comprehensive reforms to the nations planning system, followed by a Planning White Paper in spring. The reforms will focus on creating a simpler planning system and improving the capability of Local Planning Authorities (LPAs).

## Transport

After health, transport featured heavily in this Budget with several measures announced.

The government has confirmed the allocations of over £1 billion from the **Transforming Cities Fund**. Featuring a range of local transport schemes and including around £800 million for bus and cycling infrastructure.

Building on the **Transforming Cities Fund**, the government will also provide £4.2 billion from 2022-23 for five-year funding settlements for eight Mayoral Combined Authorities.

Other announcements include:

- Investing up to £1 billion to develop UK supply chains for the **large-scale production for electric vehicles** (already announced in Sept 19).
- Providing £403 million for the **Plug-in Car Grant**, extending it to 2022-23 and provide £129.5 million to extend the Plug-in Grants for vans, taxis and motorcycles to 2022-23.
- The exemption of zero emission cars from the Vehicle Excise Duty (VED) 'expensive car supplement' and the publication of a call for evidence on VED, which will include how it can be further used to reduce vehicle emissions.
- Providing £500 million over the next five years to support the rollout of a fast-charging network for electric vehicles including a **Rapid Charging Fund** to help businesses with the cost of connecting fast charge points to the grid.
- The Office for Low Emission Vehicles completing a **comprehensive electric vehicle charging infrastructure review**.
- The 'largest ever investment' in English strategic roads, with over £27 billion between 2020 and 2025, enough funding to fill in around 50 million **potholes** across the country, and investment in urban transport, with £4.2 billion for five-year, integrated transport settlements for eight city regions on top of £1 billion allocated to "shovel-ready" transport schemes.

## Financial Services

The government announced a new forum to review **regulatory matters relating to financial services**, bringing together government and regulators, to provide industry with a forward-look of upcoming regulatory initiatives. The forum will be made up of the Bank of England, Prudential Regulation Authority, Financial Conduct Authority (FCA), Payment Systems Regulator and Competition and Markets Authority, with HM Treasury as an observer member.

The government will carry out a review of **the UK's fintech sector**, aiming to identify what more industry and government can do to support growth and competitiveness in the sector, and will extend funding for the Fintech Delivery Panel.

The government announced that it will set up an **industry working group** to review how financial services are treated for VAT purposes.

The government has announced that the Treasury will shortly be publishing a **review of the UK's payment landscape** to learn what more could be done by the government, industry and regulators to support a more innovative and resilient payment system.

The government will consult to ensure that where tax legislation makes reference to **LIBOR** it continues to operate effectively. The consultation will also enable the government to ensure it is aware of all the significant tax issues that arise from the reform of LIBOR and other benchmarks.

NS&I will have a **net financing target** of £6 billion in 2020-21, within a range of £3 billion to £9 billion.

The annual subscription limit for **Junior ISAs and Child Trust Funds** will be increased from £4,368 to £9,000.

The Bank of England and PRA have **also loosened banks capital requirements** for to allow them to take temporary losses without curtailing lending.

## Energy and Environment

The Budget's core approach towards energy is to ensure that the UK meets its net zero decarbonisation commitment, what the government calls 'growing a green economy'. There is also a focus on ensuring that the economy can take advantage of the growth of low carbon industry. The details within this Budget will be completed by two further Treasury reviews into delivering the green economy: one into the economic costs and opportunities of delivering net zero, the other into the economics of biodiversity.

The government has committed to at least doubling the size of the **Energy Innovation Programme** which aims to encourage the commercialisation of clean energy technologies. The programme currently has a budget of £505 million for 2015-21.

Investment totalling £900 million has been announced to support UK business in developing and marketing 'high-potential technologies', many of which are in the energy sector. This includes commercialising nuclear fission technology and supply chains for the large scale production of electric vehicles.

Two new carbon capture and storage (CCS) clusters have been announced; these will benefit from a £800 million **CCS Infrastructure Fund** and will both be operational by 2030. In addition to these new sites, the government will also use consumer subsidies to fund the construction of the UK's first CCS power plant. The government is raising the rates on gas under the **Climate Change Levy** to £0.00568/kWh in 2022-23 and to £0.00672/kWh in 2023-24 whilst freezing the rates on electricity. The government also announced that it would freeze LPG at 2019-20 levels until April 2024.

The Budget includes measures to support the decarbonisation of gas. This includes a new support scheme for biomethane, partially funded by a **Green Gas Levy** which the government will consult on in due course. Further measures announced in this area include a **Low Carbon Heat Support Scheme** to support the installation of heat pumps and biomass boilers. Additional funding worth £270 million in support of adapting heat networks to low carbon energy was also announced alongside funding for the **Heat Networks Investment Project** through to 2022.

Fuel duty will be frozen for a tenth year in a row. This is despite an admission by the Chancellor during his speech that it will soon need to rise if the UK is to meet its net zero commitment.

Taxes will be increasingly targeted at carbon-intensive forms of energy generation, but businesses will be given time to prepare. From April 2022 the **Climate Change Levy** on electricity will be frozen while the levy on gas will be increased.

The **Climate Change Agreements Scheme** between the government and industry will be extended by a further two years beyond March 2023.

A new **Plastic Packaging Tax** will be introduced from April 2022 to incentivise the use of recycled plastic in packaging. The tax will be set at £200 a tonne on plastic packaging where recycled plastic makes up no more than 30% of the packaging. An additional £700,000 will establish the **Extended Producer Responsibility Scheme**, designed to encourage producers to make their packaging more recyclable and reduce the amount of unnecessary packaging in their products.

The government will remove **tax relief on red diesel** in an effort to cut pollution. A number of sectors will be exempted from this action however including: agriculture, fishing, rail and non-commercial heating. These changes will be suspended for two years to allow industry to adapt.

A range of measures have been announced to encourage drivers to switch to electric vehicles, this includes the extension of the **Plug-in Car Grant** to 2022-23. Recognising that the market for other ultra-low emission vehicles is still very small, the government will also provide £129.5 million to extend the Plug-in Grants for vans, taxis and motorcycles to 2022-23.

Funding worth £500 million has been announced to build new vehicle charging infrastructure to ensure that no driver in the UK will ever be more than 30 miles away from a charging point. Within this package will be funding for the **Rapid Charging Fund** to ensure that businesses are able to meet the cost of connecting fast charging points to the national electricity grid. To target spending from this fund effectively, the Office for Low Emission Vehicles will complete a comprehensive electric vehicle charging infrastructure review.

New funding worth £304 million will be made available to local authorities to enable them to take immediate action to reduce nitrogen dioxide emissions, in particular bringing road side levels of nitrogen dioxide gas to within legal limits in as short a time as possible.

From 1 April 2020, the government will exempt all ZEVs registered until 31 March 2025 from the **VED 'expensive car' supplement**. The measure will incentivise the uptake of ZEVs to support the phasing out of petrol and diesel vehicles.

The Budget announced the **Nature for Climate Fund** which will invest £640 million in tree planting and peatland restoration in England, increasing the rate of tree planting by over 600%.

The government will also introduce the **Natural Environment Impact Fund** to help prepare green projects that could be suitable for commercial investment in order to encourage private sector support for environmental restoration.

## Skills, Education and R&D

This Budget sees, on average, a **4% increase in funding per pupil** compared to 2019-20 budgets. The settlement will also allow starting salaries for teachers to raise to £30,000 by September 2022.

The Budget provides £29 million a year by 2023-24 to support **primary school PE teaching**. There is a £90 million a year fund to introduce an Arts Premium from September 2021 (an extra £25,000 a year per secondary school).

In this Budget, the funding for **Further Education has now reached £1.5 billion** over 5 years and the government has committed to a new **£2.5 billion National Skills Fund** to improve the 'technical skills' of adults across the country.

There are also plans to increase **public R&D investment to £22 billion per year** by 2024-25. The government is providing an immediate funding boost of up to £400 million in 2020-21 for world-leading research, infrastructure and equipment.

In addition, the government will invest at least **£800 million in a new blue-skies funding agency**, modelled on the 'ARPA' in the US.<sup>65</sup> This agency will fund 'high-risk, high-reward science.'

£180 million over 6 years will also be provided for a new state-of-the-art storage and research facility for the Natural History Museum at Harwell Science and Innovation Campus.

## Local government and devolution

The 2020-21 local government finance settlement enables a 6.3% nominal increase in councils' Core Spending Power. The government will consult on **revising the terms of (Public Works Loan Board) PWLB**. The government is cutting the **interest rates for investment in social housing by 1%**, and making an extra **£1.15 billion of discounted loans available for local infrastructure projects**.

The government has also announced a devolution deal with **West Yorkshire to establish a Mayoral Combined Authority** with a directly-elected Mayor from May 2021. This deal will provide £1.1 billion of investment for the area over 30 years.

**The UK Shared Prosperity Fund (UKSPF)** will replace the EU structural funds. It will, at a minimum, match current levels of funding to each nation from EU structural funds.

The government has committed to moving **22,000 civil service roles out of central London** within the next decade, the vast majority to the other regions and nations of the UK, establishing a **'significant' new campus in the north of England** focused on economic decision making, which will include teams from HM Treasury, DIT, BEIS and MHCLG.

Where Budget measures do not apply across all nations, the devolved administrations will receive additional funding through the Barnett formula to invest further in public services, infrastructure and other priorities:

- The **Scottish Government's** block grant will increase by over £640 million through to 2020-21 before adjustments for tax devolution;
- The **Welsh Government's** block grant will increase by over £360 million through to 2020-21 before adjustments for tax devolution, this includes a 5% uplift in Barnett consequentials agreed as part of the Welsh Government's fiscal framework in 2016;
- The **Northern Ireland Executive's** block grant will increase by over £210 million through to 2020-21.

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