

“A new age of optimism”

2021 BUDGET & SPENDING REVIEW: GRAYLING ANALYSIS

Analysis: walking the tightrope

Rishi Sunak has given his third Budget since his appointment and the first multi-year Spending Review to set the scope for government departmental spending since 2015. Today's announcements were made amidst a backdrop of a stronger than expected economic recovery from the pandemic and encouraging signs that its damage to the economy was less severe than previously thought.

However, concerns about a cost-of-living crisis, supply chain disruption, energy shortages, inflation and the potential for interest rate rises could have resulted in a more cautious Budget. Instead, the Chancellor has gambled that these challenges will be transitory and that the UK's growth will endure, as he announced public spending that was pitched as the highest seen since New Labour.

There were three key elements that stood out in his speech:

- 1. The Government is investing significantly in priority policies.** Whether it's £7 billion to improve transport links or £5 billion for R&D, the Government continues to find capital funding for their priorities whether that's levelling up or “cementing the UK's status as a science and technology superpower”.
- 2. Day-to-day spending has also risen higher than expected.** In what's being seen as a victory for a high-spending No 10, government departmental budgets benefitted from a higher than trailed real-terms increase in funding. However, with many Departments benefitting from protected spending, others – most notably local government, justice, and education – still face increasing demands whilst struggling to deal with the legacy of the Pandemic. New fiscal rules announced today also mean any future increases required in day-to-day funding would have to come from tax revenues.
- 3. There were targeted interventions to move towards a high skill, high wage economy.** Incentives for businesses to increase skills and productivity were abundant with targeted capital spending for investment in R&D, skills and science and technology as well as changes to business rates to incentivise business improvements. However, businesses already struggling with supply chain issues, inflation and labour shortages may feel the pinch of a minimum wage rise.

For now, the growth of the economy has enabled the Chancellor to fulfil the Prime Minister's desire that the country both have cake and eat it. Public spending will increase by 3.8% a year in real terms whilst the debt will be cut. But there was a tension throughout the Chancellor's speech between spending and fiscal responsibility – as is tradition, the former clearly driven by No 10 and the latter by HM Treasury. It's clear that the Chancellor is walking a tightrope, with little wiggle room. As he himself said, a single percentage point rise in interest rates could blow today's announcements apart.

Key announcements



Overall spending will rise by 3.8% a year – a cash increase of £150 billion a year by 2024-25 – with better-than-expected growth forecasts putting the UK on track to grow by 6.5% this year.



Health investments in digital and R&D – £2.3bn for increased diagnostic capacity, £2.1 billion to support innovative use of digital technology, £5bn on health R&D, and £500m to transform 'Start for Life' and family help services.



Business rates retained but reformed – 50% rates discount for retail, hospitality and leisure; business rates multiplier frozen; and rates relief to support investment.



Regional transport funding – £5.7bn regional funding to transform local transport networks, as well as £24bn in strategic roads, £35bn in rail investment and £8bn to fill potholes up to 2024-25.



Wages increase – the National Living Wage will be increased from £8.91 an hour to £9.50 next year, while the public sector pay freeze will be scrapped.



Brownfield housing and development – a £1.8 billion package of investment to help regenerate land and "level up" the country.



A "skills revolution" – £2.8bn capital investment in skills, including in post-16 education, 4x more skills boot camps, a global talent network to help attract foreign skills, and £560m into maths coaching.



Stronger borders and investment to fight crime – £502m for the Future Borders and Immigration System to make systems faster and more secure, and an extra £540m to complete recruitment of 8,000 more officers.



Investment support – A £1.4bn fund to encourage international companies to invest in the UK's critical industries like life sciences, offshore wind and manufacturing, and over £1.6 billion for the British Business Bank's (BBB) regional funds.



Billions for supporting net zero – £30bn to support the green industrial revolution, including £620 million of new investment to support the transition to electric vehicles, £3.9bn to decarbonise buildings, £1.5bn in net zero innovation, £1bn for CCUS, and £1.7bn to deliver large scale nuclear.

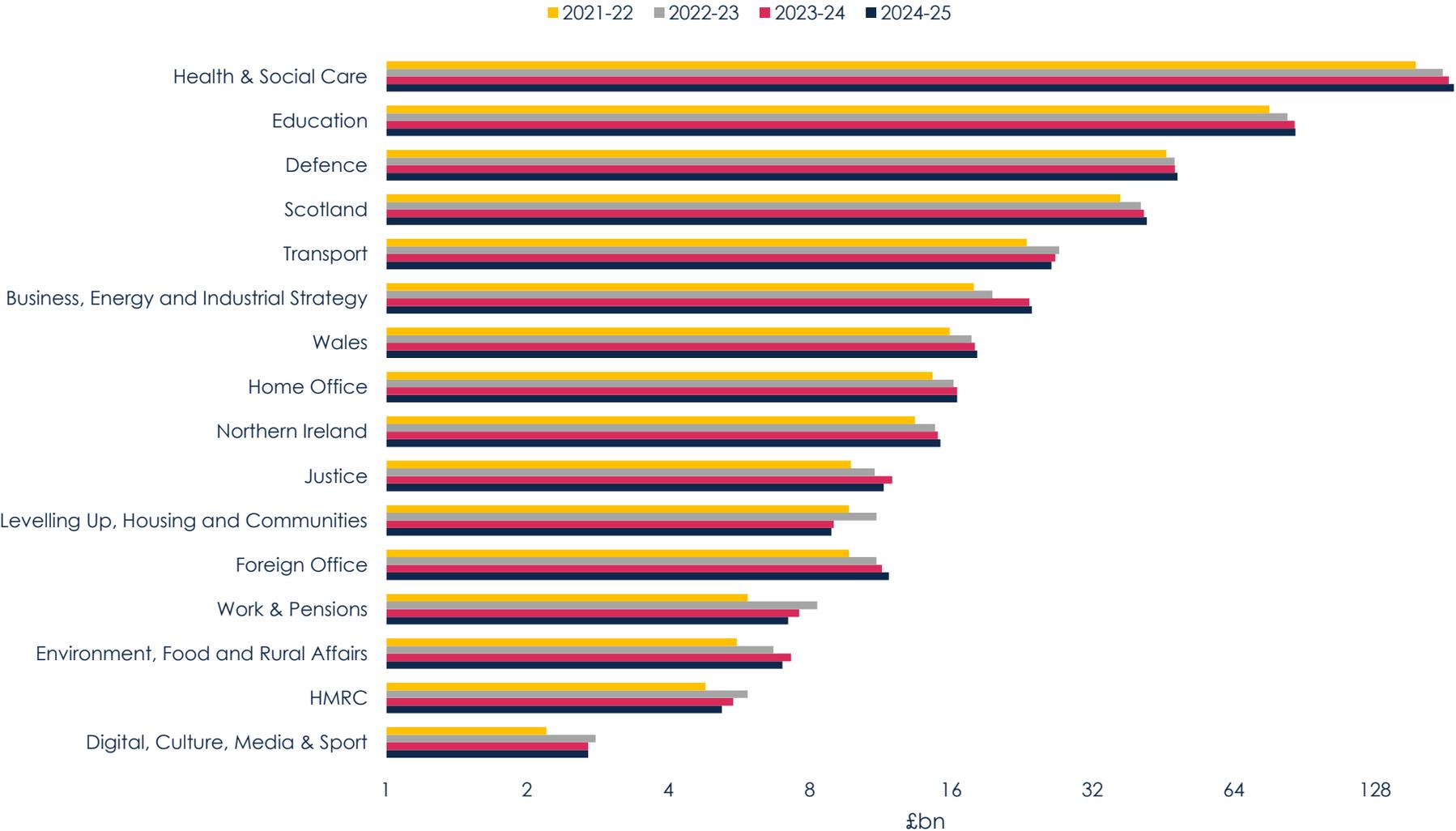


R&D boost – public R&D investment to increase by a quarter to £20 billion by 2024-25. R&D tax reliefs refocused towards modern research methods and innovation based in the UK.



Culture boost, alcohol levies simplified – £850m to restore and upgrade popular museums and galleries. Drinks will be taxed in proportion to their alcohol content, with duty rates on draft beer and cider being cut by 5%.

Spending trajectory by department



Reaction



(((Dan Hodges))) @DPJHodges · 2h
Boris and Sunak haven't parked their tanks on Starmer's lawn. They've driven them into the living room, climbed out and started ransacking the fridge.



Simon Jack @BBCSimonJack · 2h
50% biz rates discount for hospitality venues. That's new and big. Worth 1.7 billion.

Also reducing the biz rates multiplier - in total a business rates cut of £7 billion according to Chancellor.



Harry Cole @MrHarryCole · 2h
Very glum faces on Labour benches and no heckles any more as a Tory govt gives lowest paid workers a 2bn tax cut.

Some of them look genuinely shocked.



Rachel Reeves @RachelReevesMP · 44m
Never has a Chancellor asked British people to pay so much for so little - loading them with tax rises while wasting £billions of taxpayer money.

Labour would tax fairly, spend wisely and after a decade of anaemic growth, get our economy firing on all cylinders. #Budget2021



Torsten Bell @TorstenBell · 1h
There is A LOT going on in this Budget. Stepping back what is happening is:
1) the economy is smaller than we thought it would be pre-Covid.
2)...but spending is higher...
3)...largely because this is a higher tax government



Rupert Harrison @rbrharrison · 1h
Looks to me like the OBR is still being quite cautious about scarring to the economy, so could be further upgrades to the public finances at future Budgets. Suspect Rishi Sunak happy not to get it all in one go

What's next?

- ❖ **Consultations on Budget measures (Ongoing)** – expect a raft of consultations on measures announced today
- ❖ **Finance Bill (November)** – the Finance Bill, giving effect to the Budget will shortly be making its way through Parliament
- ❖ **COP 26 (31 October – 12 November)** – new commitments may be made at the conference
- ❖ **Brexit implementation (1 January 2022)** – new border controls come into effect at the UK/EU border
- ❖ **Budget 2022 (Spring 2022)** – the next Budget is expected in March

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