

# AUTUMN BUDGET AND SPENDING REVIEW 2021

A Cicero/amo analysis



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## POLITICAL ANALYSIS

Today's Autumn Budget and Spending Review provided a number of 'firsts' for Chancellor Rishi Sunak. It was the first multi-year Spending Review since the COVID-19 pandemic and since the UK formally left the EU, and the first Budget delivered by Sunak which set out a long-term economic plan for this Government as opposed to short-term support to get the economy through the pandemic. Despite today's Statement taking place ahead of what is expected to be a difficult winter, the Chancellor was buoyed by the Office for Budget Responsibility (OBR) revising GDP growth for the year up from 4% to 6.5%, allowing him to brush away concerns of supply chain issues, the rising cost of living and the underlying threat of COVID-19 restrictions.

Regardless of the positive and upbeat nature of the Chancellor's speech, there was a serious underlying note of caution and a desire to position himself as a fiscally responsible Chancellor. Gone are the days of big state hand outs and 'Eat Out to Help Out' flagship schemes, with the Chancellor instead announcing a new 'Charter for Budget Responsibility' setting out new fiscal rules supplemented with a cap on spending. The Charter will be voted on in Parliament and will put Labour in an unenviable position of either voting with the Government or voting against fiscal responsibility. However, the Chancellor is acutely aware that the OBR forecasts mean little if inflation rises further, with each increase of 1% costing over £25 billion, and Sunak confirmed he has written to the Governor of the Bank of England today to "reaffirm their remit to achieve low and stable inflation."

The 'golden thread' throughout the Chancellor's statement was the levelling-up agenda. Developing the Government's rhetoric further, Sunak used his policy announcements as a means to "extend the awesome power of opportunity to all corners of the United Kingdom" with extra funding, through the Barnett formula, going to Scotland, Wales and Northern Ireland. Parallel to this thread was the Government's increasing push for a high skilled, high wage economy, with the Chancellor stating that "high skills lead to higher productivity, and higher productivity leads to higher wages", when announcing further investment in the skills agenda.

The 'rabbit' coming out of today's Budget was the reduced taper for Universal Credit from 63p to 55p, yet this was a damp squib in a highly trailed Budget. The taper cut, introduced instead of reversing the £20 cut to Universal Credit, makes sure "work pays" so that those on higher wages benefit most, but distinctly lacked pizzazz.

For business, this was a positive Statement following a tumultuous relationship with Government of late. Businesses were positioned as one of five pillars to deliver a stronger economy by "supporting businesses with post-Brexit tax reforms, tax cuts and incentives to invest". This was evident in the cut to the bank surcharge from 8% to 3%, a 100% business rates holiday through to June 2022 and protecting small businesses with profits of £50,000 or less through a 'Small Profits Rate' of Corporation Tax maintained at 19%.

Yet of these five pillars, the green finance agenda was a glaring omission despite the UK hosting the COP26 Summit in a matter of days. The Government's net zero review, published last week, was fleetingly mentioned by Sunak with no other policy announcements on the UK leading the way on net zero. The Chancellor will argue policies will be reserved for next week's Summit but with a freeze in fuel duty and lower rate of air passenger duty for domestic travel announced today, ambitions appear relatively low.

Overall, the Chancellor set out the "largest increase this century" in Government spending but he remains a fiscal hawk, keeping a tight grip of public finances. As an anticipated rise in inflation concerns the Treasury, Sunak has paved the way to bring down borrowing in Parliament further, thereby building a fiscal war chest ahead of the next General Election.

GET IN TOUCH...



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## VIEW FROM...

### Tory backbenches

When you spend a lot of money, you're not going to get a bad response from your backbenchers are you? It's clear that today's Budget speaks to multiple wings of the Conservative Party and no one issue is a clear 'winner'. Cheaper fuel and alcohol (not tobacco) and British flags on ships always go down well with the Conservative Party as does spending on core public services. I know many sighed a breath of relief that this wasn't a big green Budget and Spending Review as they feared, but the Government's known detractors haven't stayed silent.

Steve Baker MP picked up on the underlying risk of rising inflation kyboshing much of the Chancellor's long-term ambitions, describing the economy as on "thin ice" with hot water underneath. He also used it to renew his calls for staying away from COVID-19 restrictions, saying that if public services are funded then we cannot return to restrictions or a lockdown. This sentiment wasn't widely shared publicly but is privately believed by many of his parliamentary colleagues.

The issue for the Conservative Government is that the response from Conservative MPs was warm, but there was no roar or vicious fist bumping. It was all quite muted and slightly tepid, a moment they'll enjoy now but not one that will satisfy all their wants. I wouldn't be surprised if the campaigning for the next Budget picks up in earnest from this week. A few MPs on social media had already moved onto other issues, treating this major fiscal event as a blip. For any Treasury Minister, this is worrying: spending huge amounts of money with little reward.



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### Labour Party

At 11.13am, Labour Leader Keir Starmer MP tweeted a photo of himself huddled with his Shadow Chancellor Rachel Reeves and Chief Secretary preparing for his Budget response. By 12pm he had tested positive for COVID-19 and called Reeves in to respond for Labour. Delivering the immediate Opposition response with no prior sight of the Red Book is a thankless task at the best of times, so one has to give Reeves credit for a strong speech delivered with the bare minimum of prior warning.

The task was made all the more daunting by the sight of the Chancellor reeling off generous spending announcements, confounding expectations with a real terms budget increase across all government departments and giving the clearest indication yet that the era of austerity is behind us. Many commentators have been quick to note that Sunak's Budget sounded more inspired by Gordon Brown than his Conservative predecessors. In this context, the challenge for Labour is how they differentiate themselves from a Government seemingly ready to turn the spending taps back on.

The first thing to say is that it is not necessarily a bad thing from Labour's perspective if the economic policy debate is conducted on terrain in which there is a presumption in favour of higher spending and investment in public services. While there is a clear risk that Labour could be crowded out of their own natural territory, the flip side of this coin is that Labour can present themselves as the Party which will deliver a 'full fat' version of greater investment rather than the 'pale imitation' they can accuse the Government of offering.

Two of the most striking lines in Reeves' speech were her accusation that the Conservatives have become the party of high tax and low growth, and her verdict that those cheering loudest for the Budget would be "bankers sipping champagne on short haul domestic flights". Even as they seek to steak Labour's clothes on public spending, the Conservatives remain vulnerable to political attacks that they are out of touch and failing to take sufficient action to address the cost of living crisis.



## VIEW FROM... (CONTINUED)

This was a Budget that made a clear play for Labour territory. But opportunities remain for the Opposition. Reeves wants to position Labour as the Party of the 'Everyday Economy' – on the side of working people in key sectors like retail, hospitality and care. She also believes there is an opening to launch a counter-offensive and encroach on Conservative territory by calling for a reduced tax burden on ordinary people while being forensic in cracking down on wasteful Government spending. It is on to this ground that the Shadow Chancellor will seek to shift the debate.



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### COP26 organisers

Following a COP26 themed PMQs, any COP observers expecting a Glaswegian rabbit to be unveiled this afternoon will have been disappointed. As expected, having published his final Net Zero Review last week, Sunak is keeping his powder dry for COP's Finance Day on 3rd November and Saturday's G20 meeting in Rome.

Traditionally UK Budgets do not set the weather for UN Climate Change Summits but with four days to the start of COP26 on 31st October, the Prime Minister and the Chancellor are under pressure to make Glasgow a success (to keep global warming below 1.5C and fulfil the original aims of the Paris Agreement adopted at COP21 in 2015). However, a drumbeat of negative media articles citing disagreements between COP26 President Alok Sharma MP and No.10, disgruntlement from corporate sponsors, and no shows from President Xi Jinping of China and President Putin of Russia suggest that Glasgow is more likely to mirror Copenhagen in 2009 than Paris in 2015. But what does success look like?

Boris Johnson's self-imposed benchmark for a successful COP is summed up in his slogan of "coals, cars, cash, and trees" which can be broken down as:

- **Coal** – which would see the developed world kick the coal habit entirely by 2030 and the developing world by 2040.
- **Cars** – which would see the world follow the UK lead and abandon fossil fuel internal combustion engine machines.
- **Cash** – which would see the richest nations recommit to supporting the rest of the planet to go green with funds of \$100bn a year.
- **Trees** – which would see COP26 commit to restoring nature and habitat and ending the "massacre" of the forests.

Although scheduled to last 12 days, it is likely that the discussions will run over as the pressure builds on the negotiators to achieve a global consensus. With the gladhanding, soundbites and photo opportunities taking place at the World Leaders' Summit (1st to 2nd November), it will then be left to the diplomats and officials in the Blue Zone to shepherd agreement between the 197 Parties to the United Nations Framework Convention on Climate Change (UNFCCC) as 150,000 protestors outside demand swift action.

Positioning the UK as a Net Zero superpower and adding a new ultra-long-haul distance band for international travel is the easy part, but it is now up to Sunak's boss, the First Lord of the Treasury, to make the summit a defining success with concrete actions rather than alliterative soundbites.



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# SUMMARY OF KEY ANNOUNCEMENTS



## Spending Review

- Increase spending across all Government departments by £150bn, with a £43.9bn cash increase in core resource spending for the Department for Health and Social Care.
- £8.7bn additional funding per year on average for devolved administrations, including £4.6bn for the Scottish Government, £2.5bn for the Welsh Government and £1.6bn for the Northern Ireland Executive.



## COVID-19

- £9.6bn for COVID-19 health spending, and £8bn over the Spending Review period to finance a major catch up programme, supporting the NHS to provide elective care that was delayed by the pandemic.
- Extension to the Recovery Loan Scheme until 30 June 2022. The Government guarantee will be reduced from 80% to 70% to encourage the lending market to move towards normality.



## Taxation

- Bank surcharge set at 3% from April 2023, with the annual allowance within the surcharge raised to £100m.
- Freeze the business rates multiplier for a second year, from 1 April 2022 until 31 March 2023 and introduce a new temporary business rates relief for eligible retail, hospitality and leisure properties of 50% for 2022-2023, up to £110,000 per business cap.
- Cut Universal Credit Taper Rate from 63p to 55p and increase work allowances by £500/year.



## Levelling Up

- £1.7bn of funding for 100 local projects from the Levelling up Fund, including £172m for Scotland, £121m for Wales, and £49m for Northern Ireland.
- £1.6bn for the British Business Bank's Regional Funds to provide debt and equity finance to SMEs, and to expand the Regional Angels programme.
- £1.4bn for the Global Britain Investment Fund to ensure that economic opportunities are spread more evenly across the UK.



## Innovation

- 50% increase in spending on R&D by the end of this Parliament, which will equate to spending of £20bn annually.
- £300 million for R&D programmes focusing on low and zero emission technologies.
- £160m of investment into new and innovative industries, including £50m for digital technologies and over £110m for the Government's online safety regime.

## GET IN TOUCH...



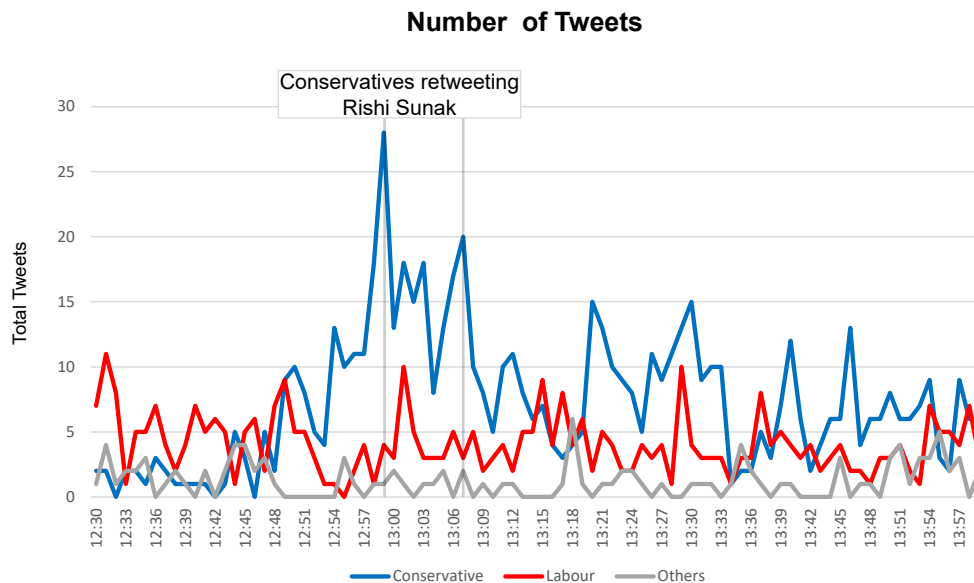
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# MP TWITTER ACTIVITY

During the Budget Statement, Conservative MPs heavily retweeted Rishi Sunak whose account was slick in tweeting announcements as he made them, complete with a signed graphic. Labour MPs meanwhile were quick to point out that he kept announcing the highest funding “in a decade” - when the Conservatives came to power. Others questioned the lack of environmental measures (and cut in air passenger duty) the week before COP26.



## Top Keywords

## Most Used Emojis



## Key Tweets



### Stephen Crabb MP @SCrabbPembs

Given the dire outlook facing the U.K. economy in 2020, this is a remarkable set of economic data and revised forecasts from the Chancellor. Very strong rebound for the economy. #Budget



### Bell Ribeiro-Addy MP @BellRibeiroAddy

The week before COP26, the Government has announced it will cut air passenger duty in half for carbon intensive domestic flights.

We should be encouraging people away from flying, not incentivising them to fly more #Budget21 #COP26Glasgow



### Caroline Lucas MP @CarolineLucas

The Chancellor's obsession with GDP growth is outdated and dangerous. If we're serious about tackling the climate and nature crises, we urgently need new measures of economic success #Budget2021 #WellbeingEconomy #BeyondGDP

GET IN TOUCH...

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