Cantab
ASSET MANAGEMENT

Autumn Budget 2021: Summary of key points

28 October 2021

Higher skills, higher productivity and higher wages……in the Chancellor's new age of optimism, the only limit is the effort we are prepared to put in.

Positive sentiments from the Office for Budget Responsibility (OBR) were expressed on UK Debt at £2.2tn (85.2% of GDP rather than 93.8% from an earlier forecast), UK Growth at 6.1% for 2021, 2.1% for 2022 and 1.3% for 2023 and UK Unemployment at 5.2% rather than an expected 12%.

Inflation however is expected by the OBR to average 4% in 2022, well above the Bank of England's target rate. In setting monetary policy, the Central Bank will need to account for expected real increases in spending in every Government department during this Parliament.

A realistic assessment of where the UK currently sits was delivered by the Chancellor with an acknowledgement that, following the pandemic, the State is spending more than half of the country's Gross Domestic Product. The Chancellor expressed a desire to bring this proportion down with reductions in taxes in future years. To place this in context, in the Thatcher premiership, State expenditure fell from 45.1% to 39.2% of GDP over ten years, principally attributable to GDP growth rather than reduction in spending.

On specific taxes, fuel duty is frozen again, a 50% discount is to be applied to business rates in the hospitality and leisure sectors over the next 12 months, alcohol taxes are to be overhauled and, in the main, reduced and the £1m investment allowance for capital investment in businesses is to be extended until March 2023. A new residential property development tax of 4% on developer profits over £25m is to contribute to the cost of replacement cladding on tall buildings and £11.5bn is to be used to support the building of 180,000 new affordable homes. The bank surcharge on profits is to be reduced to 3% on top of the 25% corporate tax rate from April 2023.

Other initiatives to encourage growth and innovation were announced including an improved visa system for skilled workers, a £1.4bn 'Global Britain' investment fund to attract overseas money to the UK, increased R&D spend to £22bn with additional tax relief, £30bn for Green issues, £21bn for roads, £46bn for rail and £5bn for walking and cycling. Training is also to be supported with increased funds for schools, skills, numeracy and families.

The National Living wage is to be increased by 6.6% to £9.50 per hour providing around £1000 per annum extra for some 2m workers. The Universal Credit taper is to be reduced from 63% to 55% to allow more of the increased wages for work to be retained which should lead to an additional £1200 per annum at least for poorer families.

The desire to reward energy, ingenuity and inventiveness was expressed and to see the UK prosper as one nation.

The Chancellor also announced a new Charter for Budget Responsibility which would implement two new rules restricting future government spending to be met by the third year of every forecast period. The rules are a) that underlying Public Sector Debt, as a percentage of GDP, should always be falling and b) that the UK should only borrow when intending to invest in the state's future growth and prosperity.

Comment on the Budget and associated 2020-21 tax changes

Reaction has come from politicians across the House and numerous commentators. Concerns over spending plans have been expressed by many but the fact remains that the country and indeed the world have come through a pandemic and are recovering from one of the largest social and economic shocks in living memory. The scar from Covid has been estimated by the OBR at 2% of GDP (reduced from a previous 3% figure). The impact though is still to fully emerge in economic terms with some supply chain difficulties, labour shortages and increased energy and raw material prices.

The effect of Sunak's tax and NI changes have been estimated by the Resolution Foundation at an average of £3,000 per household more in annual taxes by the end of this Parliament; others comment that the tax burden planned is the highest since the 1950s. Most of the tax increases have come from previous budgets, the National Insurance/Health & Social Care levy and the dividend tax rise announced last month. The Foundation also commented that the tax increases were broadly progressive with poorer people slightly better off and most of the tax burden falling on people on average incomes and richer households.

The stimulative nature of the Budget has so far not upset markets, indeed the UK government debt market enjoyed its biggest one-day rally since March 2020; fears of inflation being more than transitory have not receded, but a significant revision to the state of the country's public finances saw 10-year Gilt yields drop from 1.11% to 0.99%.

The interventionist state however is concerning to many although some re-assurance was taken from the Chancellor's stated desire for lower taxes in future years. The OBR commented that 'Stronger and more tax-rich growth, coupled with the tax rises announced over the last two Budgets, raise the tax burden from 33.5% of GDP to 36.2% by 2026-27 – its highest level since Clement Attlee's Labour Government in the early 1950s. Reducing spending appears electorally impossible in the face of the pandemic and the pressure for more health and care funding in an ageing society. This leaves economic growth as the sole engine for reducing the involvement of the State in the UK economy and hence the emphasis of the Chancellor on innovation and investment.

The PM's levelling up agenda is an important part of the Conservatives' vision and delivery is crucial to their re- election hopes. Let us all hope that the UK emerges stronger from the difficult experience of the last eighteen months and that global trade stabilizes satisfactorily. As COP26 takes place in the next fortnight, let us also hope for improved stewardship of the earth's resources globally.

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