


 Political
Intelligence

BUDGET 2021

ANALYSIS OF THE 2021 BUDGET



All eyes were on the Chancellor yesterday as he sought to deliver his Budget in the face of overwhelming uncertainty around the reopening of the economy, the pace of recovery and the true extent of COVID costs. He began by setting out OBR economic forecasts, which, while bleak, contained a few adjustments of prior forecasts that have softened the blow, notably the revised downwards estimates of peak unemployment, from 11.5% last July to 6.5%. He added that the vaccine rollout would spur a “swifter and more sustained” economic recovery than previous forecasts had envisioned.

The Chancellor's focus was on supporting growth by protecting jobs, businesses and livelihoods with grants, furlough, extended welfare support and tax relief measures, while delaying fiscal consolidation measures until the worst effects of the pandemic are behind us. While the extension of furlough is necessary, the OBR fear those who have been on the scheme longest will suffer permanent damage to their employment and earning prospects.

Conservative thinking in recent times has been to avoid austerity, but some have observed that buried in the Budget is a real-terms cut to public service spending, possibly to the tune of £4bn per year after next year. That's certainly the line Labour are peddling, as they hone in on the assertion that the NHS will face a £30bn cut in day-to-day spending at a time of an unprecedented backlog of care.

It is widely accepted that fiscal consolidation would not be wise at the present time, with the full extent of our COVID debts still not yet known. Sunak stopped short of detailing the uncertainties we continue to face but nonetheless began to lay the foundations for a medium to long-term vision for repairing the public finances. The key fiscal measure announced was that corporation tax will rise to 25% from 2023, the first rise in this tax since 1974 and a clear departure from George Osborne's chancellorship.

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Sunak stressed that this tax increase will, by definition, not impact small or struggling businesses as it is only applicable to profitable businesses and is thus deemed a progressive and fair tax policy. The 'Biden effect' may lessen the backlash with the US President proposing an increase to 28%. In any case, this has not caused much of a stir in the immediate aftermath among Tory MPs thought likely to threaten to rebel over tax rises. Moreover, early YouGov polling notes high levels of public support for the increase, a sign of things to come as the public pays greater heed to state debt management in the wake of the pandemic. The other key fiscal announcement is a tax rise by stealth as the personal income tax threshold will be frozen at £12,500 after next year until 2026.

While these tax measures are deemed progressive and fair by many, they leave Sunak facing questions about future tax rises in store which increasingly appear inevitable given the growing debt and his vow to at least stabilise it in coming years. We are yet to fully witness the Chancellor's economic vision outside of an acute crisis, but his guiding principles to begin with are threefold: the state should not be borrowing for day-to-day public spending in ordinary times; debt cannot continue rising over the medium-term; and it is sensible to take advantage of low interest rates to invest in capital projects to drive growth.

The prospect of an uptick in interest and inflation hung gloomily over the Chancellor's plans to address public finances, to put this risk into perspective, the OBR explains that if interest rates were to rise a full percentage point, this would cost an additional £20 billion and be sufficient to wipe out all of the additional corporation tax revenue raised in this Budget.





The Chancellor stressed the commitment to honesty and transparency in his approach, not only about the economic situation the country is in but also regarding the reasoning behind measures undertaken. This was particularly discernible as he sought to lay out the need for raising corporation tax. The other emphasis was on the fair and progressive nature of measures, again, most notably in relation to tax policy.

While it is a more than commendable aim to set out measures early to ensure business certainty, this approach does not seem to have extended to certain measures which more directly relate to household finances. As this impacts those households on the lowest incomes, and thus most adversely affected by any economic crisis, the Chancellor has received some criticism in this area. Down to the wire decision-making particularly surrounding Universal Credit, furlough and previously in relation to free school meals, and the repeat extension of the measures at varying intervals has resulted in some

criticism from certain organisations.

The Joseph Rowntree Foundation and the Resolution Foundation have both raised concerns about the scaling back of support measures in six months in the face of continuing pressures on low-income households and an uncertain road to recovery.



Key economic figures

£65BN

Total fiscal response
announced in this Budget

£407BN

Government support provided
to date

4%

Expected GDP 2021 growth, with
7% growth next year and
returning to pre-pandemic level
in Q2 of 2022

10%

Shrink in the size of the economy in
2020, the largest fall since 1709

700,000

Job losses since the onset of COVID

6.5%

OBR expected unemployment
peak, revised downwards from
last July's estimate of 11.5%

Headline policy announcements

£5BN

Restart grants for businesses as
the economy reopens

£20

Weekly Universal Credit
uplift & Working Tax Credits
extension for six months,
benefiting around 6.5m
families

25%

Corporation Tax from 2023 on
profits over £250,000, up from
19%, marking the first rise since
1974

80%

Furlough to be extended until
September as the scheme
gradually phases out & support
for self-employed

£12BN

Initial funding for a UK
Infrastructure Bank in Leeds

£1.65BN

For the continued success of the
vaccine rollout



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For further information on the Budget or if you would like to discuss your plans for this Parliament and ways in which Political Intelligence can support you, then please contact us on 020 3397 3300 or contact our Chairman Nicholas Lansman on nick@political-intelligence.com.