Budget 2021

The Office for Budget Responsibility | Economic Summary

The alinea view

This Budget intends to manage the immediate impacts of the ongoing pandemic, and encourage spending and investment before tax increases at the end of the forecast period.

Whilst more could have been included to help meet climate change targets and the supply of housing rather than just maintaining demand in the private ownership sector, support for jobs and investment will be welcomed by many.

The Office of Budget Responsibility's view is not overly positive, but should give cause for cautious optimism as we look to recovery from one of the greatest economic shocks for 300 years, within the next year.

The economy is weaker in the near-term but rebounding faster than forecast in November, according to the Office for Budget Responsibility.

The Budget focussed on three things:

1) Pandemic rescue spending

2) Boosting the recovery through tax breaks

3) Taking steps to repair the economy at the tail end of the forecast.

It is no mean feat; the UK has been particularly affected by the Covid-19 pandemic, seeing the largest GDP decline in the G7, despite the recorded fall being lower than initially forecast.

GDP is expected to grow by 4% this year, and recover to pre-pandemic levels by the second half of 2022 which again, is an improvement on previous forecast. When comparing to the last Budget in March, it is interesting to note that GDP was forecast to show low, steady growth.

Unemployment is forecast to increase to 6.5% through to the end of 2021 but an extension to the furlough scheme means that November's forecast of 7.5% has also been bettered.

Public finances

The Budget, and the OBR review are full of very large numbers: government borrowing has reached a peacetime high of £355 billion (16.9% of GDP but will fall back to £74 billion (2.8%) in 2025-26. Whilst underlying debt will peak at 97.1% of GDP in 2023-24.

However, despite the current fiscal targets expiring this month, the Chancellor will not set new targets to govern tax and spending decisions until the autumn, making Covid-19 the priority for now.

Whilst borrowing costs are low, the sheer scale of the UK's debt makes it sensitive to changes in interest rates.

Business as usual?

The OBR notes that lower Covid-19 case numbers and an open economy will not immediately free up government resources, as the government will need to provide for catch up on services disrupted by the pandemic. NHS backlogs and impaired schooling could put pressure on departmental cuts which are planned for 2022-23 onwards.

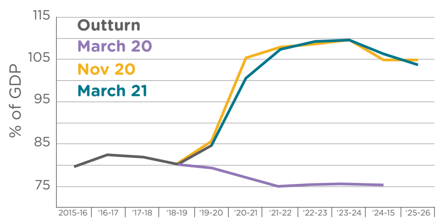
Uncertainty

It seems to have been a while since the OBR has been able to forecast with any certainty, previously noting Brexit as a sizeable unknown, this time it notes that the uncertainty still remains considerable. The economy's trajectory can be altered by the speed of vaccine rollout, changes to household spending and reducing scarring, or further lockdowns.

> **"Uncertainty around the economic outlook remains considerable"**
>
> The OBR on forecasting a route out of Covid-19

	UK GDP Growth (%)		
	Mar 2020	Nov 2020	Now
2019	1.4	1.3	1.4
2020	1.1	-11.3	-9.9
2021	1.8	5.5	4.0
2022	1.5	6.6	7.3
2023	1.3	2.3	1.7
2024	1.4	1.7	1.6
2025		1.8	1.7

Public sector net debt (change between forecasts)



> **"While output partially recovered in the second half of last year – and somewhat more strongly than we previously thought – the latest lockdown and temporary disruption to EU-UK trade at the turn of the year is expected to result in output falling again in the first quarter of this year"**
>
> The OBR

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The labour market

Unemployment has risen a little since previous forecasts but still remains low by international comparison, at 5.1%. However, there are currently 4.9 million furloughed people, well below the peak of 8.9 million in May 2020, but still a sizeable proportion of the workforce.

An explanation for the UK's low unemployment rate and a point of particular concern is the OBR's assertion that the UK population may be "substantially smaller than official statistics suggest" as foreign nationals returned home during the pandemic and immigration slowed. It claims that unless these 'missing workers' return or are replaced by new migrants, scarring in the labour force could be much larger than anticipated.

Wages are expected to rise, reflecting productivity increases and reduced slack in the labour market, but this inrease will be smaller than forecast pre-pandemic.

Productivity

Data on productivity has been volatile throughout the pandemic, swinging above and below pre-pandemic levels. The OBR suggests that this is due "net effect of two competing forces: the loss of efficiency arising from changes in working practices necessitated by the virus and lockdown; and the concentration of the effect of lockdown on hours worked in below-average productivity jobs, generating an upward 'batting average' effect".

In the medium term, productivity is expected to be 2% below the March 2020 forecast.

Business investment

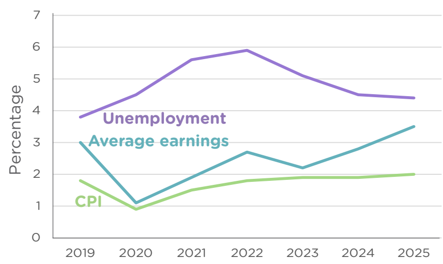
Business investment is expected to recover, supported by clarity on Brexit, and increased confidence in the market. It has also been boosted in the forecast to reflect new Budget measures.

Consumer health

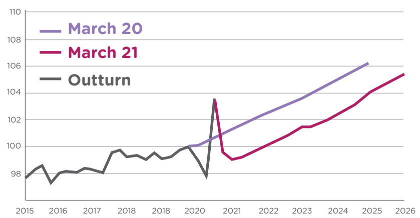
The OBR suggests that the recovery will be initially led by consumer spending as households which have been able to save, or have deferred spending decisions will be active in the economy as it opens up and health concerns abate.

	Business investment % change on a year earlier	
	March 2020	Now
2019	0.3	1.1
2020	0.0	-10.7
2021	1.8	-2.2
2022	3.0	16.6
2023	2.4	3.0
2024	2.3	-2.3
2025		5.1

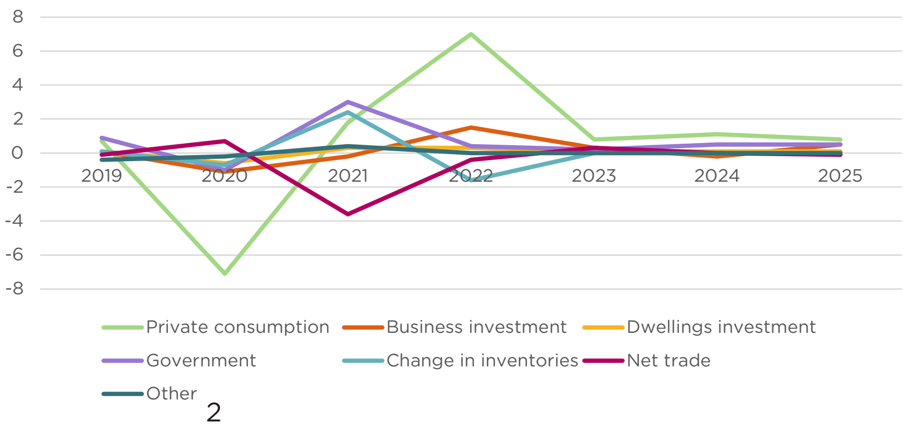
Key economic indicators



Output per hour (2019 Q4 = 100)



Contributions to GDP growth will be led by consumer spending



Budget 2021

Property and construction | key policy moves

The housing market

In the Budget, the Chancellor announced a new UK-wide mortgage guarantee scheme for people with a deposit of 5% on a value of up to £600,000.

The Residential Stamp Duty Land Tax Nil Rate Band will be increased to £500,000 in England and Northern Ireland until 30 June 2021. From 1 July it will reduce to £250,000 before returning to £125,000 on 1 October 2021.

Infrastructure

Originally announced last autumn, more details on the UK Infrastructure Bank were outlined. It will be based in Leeds, and will help deliver the UK's commitment to reach net zero carbon by 2050.

The bank will have an initial capitalisation of £12 billion and is expected to support at least £40 billion of investment in infrastructure projects. It will offer a range of financing tools to support private infrastructure projects such as debt, hybrid products, equity and guarantees.

It will begin operating this spring, but will ramp up its activities later with total cost to the exchequer being £1.79 billion by 2026.

Full details are set out in a supporting paper: *UK Infrastructure Bank Policy Design.*

The Budget also mentioned several infrastructure projects such as the National Infrastructure Commission Towns and Regeneration Study, A66 development funding, Birmingham Interchange Station (around the HS2 station), flood schemes, and offshore wind.

Red diesel

As trailed in the 2020 Budget, red diesel will be banned from use outside of certain entitlements after April 2022, and the Budget confirmed that construction is no longer one of the permitted uses.

The Mineral Products Association warned that this will lead to an additional £100 million tax on the industry and that there are currently no alternatives to diesel-powered equipment for the heaviest tasks.

Modern Methods of Construction (MMC) Taskforce

A taskforce to boost adoption of offsite housebuilding with £10 million of seed funding was announced. According to the Budget documents, the taskforce will "consist of world-leading experts from across government and industry".

Levelling Up Fund

A Levelling Up Fund prospectus was launched alongside the Budget. The Fund will invest in infrastructure including high street and town centre regeneration, local transport projects, and cultural and heritage assets.

Super deduction

A new policy to encourage investment by offering assets which ordinarily qualify for an 18% allowance, a 130% capital allowance, and investment in 'special rate' assets (including life long assets) will now benefit from a 50% first year allowance.

The policy will apply from 1 April 2021 to 31 March 2023 and is expected to unlock £25 billion in business investment.

The supporting policy documentation does give some cause for caution, though, stating "the measure could negatively impact customer experience as the change requires additional tax admin tasks to be completed when assets are disposed".

> **"Under the existing rules, a construction firm buying £10 million of new equipment could reduce their taxable income, in the year they invest, by just £2.6 million.**
>
> **With the Super Deduction, they can now reduce it by £13 million"**
>
> Rishi Sunak

Our view

Construction was not the main focus of the Budget, but there were some important points, and some policies which will impact all businesses and some which construction could take advantage of.

The cumulative effects of the long term view offered up by the Construction Playbook, investment opportunities prompted by the super deduction, as well as a focus on Modern Methods of Construction could enable an exciting step change for the industry in the coming months.

A UK Infrastructure Bank with £12 billion of initial capitalisation hopefully signals that the government is to stand by its campaign to 'Build back better' which can help revive local economies across the UK.

Budget 2021

Economy | Other key policy moves

Business support

A new Recovery Loan Scheme will provide all UK businesses access to a guarantee of 80% on eligible loans between £25,000 and £10 million.

Restart Grants of up to £6,000 per premises for non-essential retail businesses, and up to £18,000 per premises for hospitality, accommodation, leisure, personal care and gym businesses, allowing them to plan ahead and safely relaunch. An additional pool of £425 million of discretionary business grant funding will be made available to local authorities in England. The total sum of grants will cost £5 billion, with total cash grants amounting to £25 billion.

The Statutory Sick Pay (SSP) Rebate Scheme (launched in May 2020, as part of the Covid-support package) will continue to allow SME employers to reclaim up to two weeks of SSP whilst sickness absence rates are high.

Business Rates Relief will continue for eligible businesses, with 100% relief from 1 April 2021 to 30 June 2021, reducing to 66 to 31 March 2022, capped at £2 million for businesses required to close on 5 January 2021, or £105,000 for other eligible properties.

Extended loss carry back for business will be extended from the current one year, to three years, for both incorporated and unincorporated businesses. This will be legislated in an upcoming Finance Bill.

Tax

Businesses which deferred VAT returns from March 2020 through to June 2020 and now use a VAT Deferral New Payment Scheme to split the payment into eleven equal payments rather than a single large payment, due at the end of March 2021.

In the tourism and hospitality sector, the current VAT reduction to 5% will be extended until 30 September 2021 at which point it will increase to 12.5% until 31 March 2022 when it will be restored to 20%.

The Personal Allowance will rise with CPI as planned, to £12,570 from April 2021. The higher rate will rise to £50,270 from April 2021, however both bands will then be frozen until April 2026.

Capital gains and inheritance tax will remain at existing levels.

Corporation tax rates will increase in April 2023. For small profits under £50,000, it will remain at 19% and there will be relief for businesses with profits under £250,000. Above this level, corporation tax will increase to 25%. The Diverted Profits Tax will increase to 31% from April 2023.

Freeports

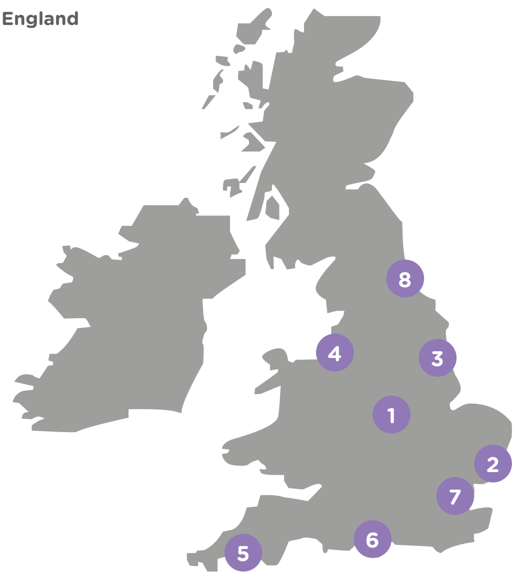
Locations for eight new freeports were announced. Goods that arrive at these freeports will not be subject to tax charges if goods are not circulated in the UK. The UK previously had seven freeports between 1984 and 2012.

The new ports are expected to begin operations from late 2021 and will bring several local tax changes:

- Full relief from SDLT on the purchase of commercial land or property within a Freeport tax site.
- Enhanced 10% rate of Structures and Buildings allowance for constructing or renovating non-residential structures and buildings within freeport sites.
- Full Business Rates Relief in Freeport tax sites.
- An enhanced capital allowance of 100% for companies investing in plant and machinery for use in Freeport tax sites in Great Britain.

The location of eight new freeports in England

1. East Midlands Airport
2. Felixstowe and Harwich
3. Humber region
4. Liverpool City Region
5. Plymouth
6. Solent
7. Thames
8. Teesside



Budget 2021

Economy | Other key policy moves

Productivity and innovation

Two Help to Grow funds were launched: Management, and Digital.

Help to Grow: Management will help upskill SME workforces through programmes delivered in partnership with business schools. The curriculum will be delivered over 12 weeks, with costs 90% subsidised by government to enable SMEs to grow.

Help to Grow: Digital will help SMEs save time and money through productivity-enhancing software. Vouchers will cover up to half of the cost of approved software, up to £5,000, in addition to free advice.

Skills and visas

From March 2022, several changes will be made to the points-based immigration scheme to better facilitate "highly skilled, globally mobile talent", particularly for academia, science, research, and technology sectors.

The immigration sponsorship system will also be modernised to make it easier to use. A plan for this will be delivered in the summer.

Incentives for employers to hire apprentices will be doubled and extended for another six months. Having been introduced last August at £2,000 for apprentices aged 16-24, and £1,500 for apprentices over 25 years old, the scheme was originally intended to close this month.

To increase the number of traineeships, the government will provide an additional £126 million in England (£111 million was allocated in 2020/21) to facilitate "high quality" work placements and training for 16-24-year-olds in the 2021/22 academic year. Employers who provide trainees with work experience will continue to be funded £1,000 per trainee.

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