Spring Budget 2023 Update

17 March 2023

- **Chancellor continues steady and uncontroversial approach**
- **Incentives to get people back to work**
- **Pension allowance changes are welcome news**

Key messages

1. Jeremy Hunt, the UK Chancellor, delivered an uncontroversial budget, following the chaos of the Truss/Kwarteng mini-budget of September 2022

2. Primary focus is on getting people back to work to help growth and fight inflation. Pension allowance changes are very welcome news.

3. The Office of Budget Responsibility ("OBR") forecasts point a more moderate improvement in Growth outlook, and very narrow fiscal headroom (the level of government borrowing), meaning gilts market should not be overly impacted by this Budget, unlike September.

Top-line

The Spring Budget 2023 is intended to build on the post-Truss stability introduced by Jeremy Hunt at the Autumn Statement 2022.

The Budget is intended to deliver on three of the Government's key priorities, namely:

1. to halve inflation
2. to grow the economy
3. to get debt falling

Halving inflation

Measures in the budget to help towards the target of halving inflation include extending the Energy Price Guarantee at £2,500 (per average household) for a further three months from April 2023; maintaining fuel duty at current levels, and freezing duty on draught beer to keep it cheaper than at supermarkets.

Longer term, the government is supporting investment into new nuclear energy and carbon capture schemes to support the transition to cleaner energy and higher energy security.

Growing the economy

Whilst the Truss budget was "going for growth" with no regard to balancing public finances (known as "unfunded tax cuts"), the Spring budget is still intended to support growth, but keeping government finances balanced. Growth is important to support higher living standards, higher employment and better public finances. Growth measures include supporting employment, education, enterprise and levelling-up.

While unemployment is at a near 50-year low, since the COVID-19 pandemic there has been a significant increase in the number of people neither in nor looking for work. This is also a contributing factor to wage-price inflation.

Employment: In order to encourage people back into work to re-expand the workforce, the Budget is targeting on creating incentives for four particular groups: the 2.5m long-term sick/disabled, 5.9m welfare recipients/unemployed, older workers who left the labour market during the pandemic, and 435,000 parents caring for children under 3 years old. The intention is to get 110,000 people back into work by supporting these groups.

Education: in addition to existing measures such as maths to 18 and T-Levels, the Government is supporting a Returnship scheme for over-50s together with skills support.

Enterprise: in an effort to stimulate investment, companies will be able to write off the full cost of qualifying plant and machinery investment in the year they invest, supporting businesses to invest and grow for the next 3 years. No changes planned to Corporation Tax however, but there are reforms to R&D expenditure reliefs.

Levelling up: the creation of 12 investment zones around the UK to support the implementation of the Levelling-Up White Paper.

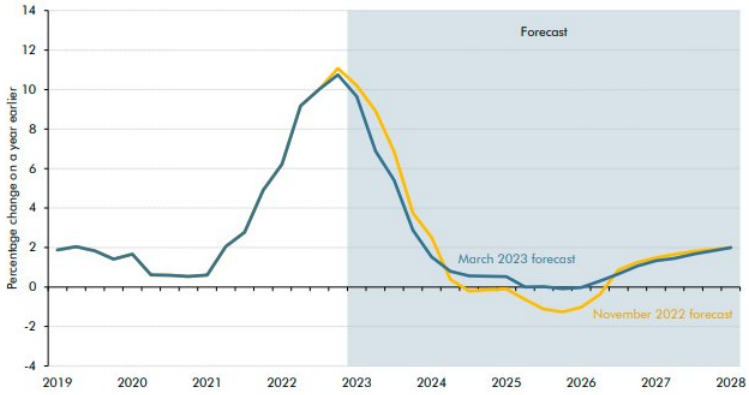
Get debt falling

The government had to increase borrowing in recent years to support households and businesses through the COVID-19 pandemic and energy crisis. Public debt now stands at almost £2.5 trillion, or 98.9% of GDP. While the public finances have proven more resilient than expected in November, higher interest rates and inflation has increased the cost of servicing debt. However latest OBR forecasts show the Government on track to maintain Debt-to-GDP in line with target by 2027-28 with narrow headroom.

In charts

Halving inflation

Chart 1.1: CPI inflation



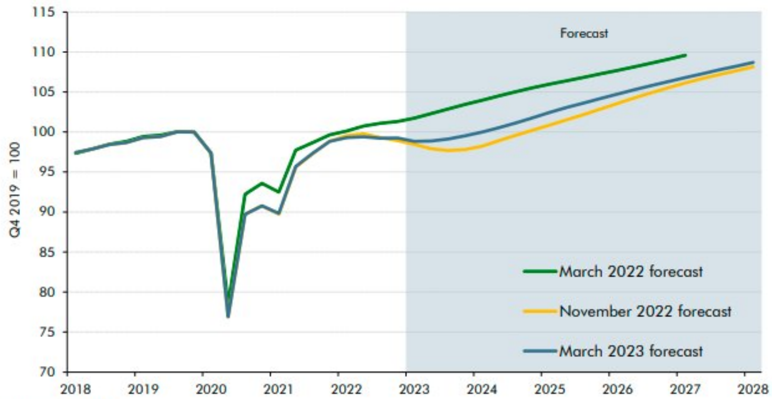
Source: ONS, OBR

The target to halve inflation is helped primarily by the “base effect” - when the change in inflation is against a higher base, the % rate looks lower.

The OBR is currently forecasting that UK CPI reaches +2.9% by end 2023.

Growing the economy

Chart 1.2: Real GDP

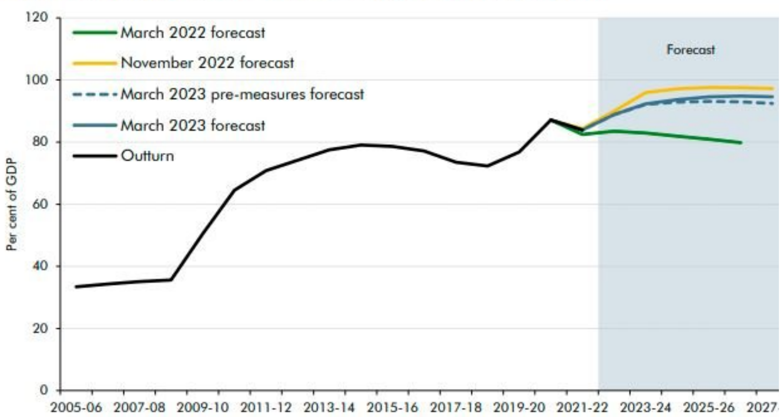


Source: ONS, OBR

The prospects for Growth have improved slightly relative to November 2022, on OBR’s forecast, but remain below capacity (pre-COVID trend) and below March 2022 estimates.

Get debt falling

Chart 1.6: Public sector net debt excluding the Bank of England

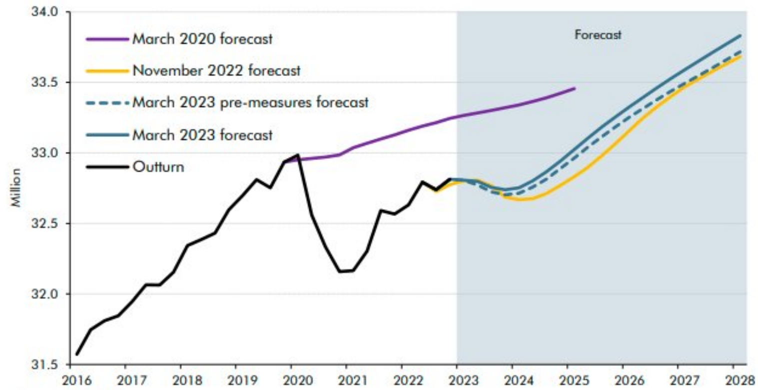


Source: ONS, OBR

Whilst the government looks on track to meet its rule of a steady decline in debt/GDP forecast over the next 5 years, there is very little headroom, meaning finances remain vulnerable to any future shock.

Employment

Chart 1.3: Employment



Source: ONS, OBR

Employment has still not recovered from the COVID pandemic. The Spring Budget is creating incentives for particular groups including the over-50s and young parents to get back to work.

Key tax changes

As part of the Spring Budget, there are some key tax changes that may affect you or your business.

For individuals:

- No major changes for income tax, capital gains tax, or inheritance tax.
- Pension lifetime allowance limit abolished and annual allowances increased to £60,000 from April 2023.
- Pension tapered annual allowance increased to £10,000.
- Tax simplification for trusts and estates with minimal income.

For businesses:

- No changes to Corporation Tax increases.
- Full 100% expensing for qualifying plant and machinery
- Loss-making R&D-intensive small businesses to receive £27 for every £100 of qualifying R&D expenditure.
- Extra relief for creative industries such as theatres, orchestras, museums, and galleries.
- 12 new Investment Zones with a 5-year package of tax incentives

Bottom line

This was a "boring budget" intended not to spook the gilts market after September's Truss/Kwarteng fiasco.

Whilst OBR forecasts are not always accurate, they point to a more stable picture for government finances and policy making.

The increase of annual pension allowance and abolishing the lifetime allowance are very welcome measures, and should prompt a timely review of pension arrangements to maximise reliefs available.

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