
THE SPRING BUDGET OVERVIEW 2023

Introduction

Chancellor of the Exchequer Jeremy Hunt was brought in as a safe pair of hands by Liz Truss amid the fallout from last year's Mini Budget. Of course, Ms Truss herself did not survive much longer, and after being kept in post by Rishi Sunak, Mr Hunt delivered his Autumn Statement, in which he announced a package of tax rises and spending cuts worth £55bn.

Four months later, Mr Hunt finds himself in the unusual position of becoming just the second of the past five chancellors to hold a full Budget - the last one being Mr Sunak himself. As ever, the Chancellor must juggle different priorities, from managing global economic headwinds and tackling the cost of living crisis, to boosting productivity and encouraging more businesses to invest in the UK.

At the same time, Mr Hunt will be mindful of maintaining the confidence of the markets and assuring the voting public that the Conservatives are the party of fiscal responsibility. And of course, he will be acutely aware of the feelings of many backbench Conservative MPs who are calling for sweeping tax cuts at a time when the UK's tax burden is at a 70-year high.

The political background

Since replacing Liz Truss as Prime Minister last October, Rishi Sunak has been keen to establish himself as a serious politician who can restore Britain's financial and international credibility.

He began 2023 by unveiling his five priorities: halving inflation this year, growing the economy, reducing national debt, cutting NHS waiting lists and stopping small boats carrying migrants from crossing the English channel.

Mr Sunak also achieved a Brexit breakthrough last month by agreeing a new deal with the European Union designed to reduce the frictions on Great Britain-to-Northern Ireland trade, known as the Windsor Framework. In addition, the Prime Minister recently visited Paris to meet with French President Emmanuel Macron, where a £500m package to help stop migrants crossing the Channel in small boats was agreed.

Notably, both these announcements were characterised by much warmer relations than we have seen of late, with EU President Ursula von der Leyen addressing Mr Sunak as “dear Rishi” during the Windsor Framework announcement, and many of the newspapers observing an apparent bromance between the Prime Minister and the French President.

But these successes were quickly displaced in the headlines by other matters, such as WhatsApp messages sent by former Health Secretary Matt Hancock being leaked to The Telegraph and Gary Lineker’s criticism of the Government on Twitter triggering a national debate over the BBC’s impartiality.

The Conservatives also consistently lagged behind Labour in the polls over the last few months, and Leader of the Opposition Sir Keir Starmer actively sought to build on this by positioning his party as a government in waiting. For instance, Sir Keir and Shadow Chancellor Rachel Reeves met with policymakers and business leaders at the World Economic Forum in Davos earlier this year, and the Labour leader later visited Ukraine’s President Zelensky to reaffirm Britain’s continued support for the country if his party wins the next general election.

Meanwhile, Chancellor Jeremy Hunt sought to lay the groundwork for the Budget by warning that “significant” tax cuts in the Budget were “unlikely”, arguing instead that halving inflation was “the best tax cut right now”. However, we know from previous Budgets that even in grim economic circumstances, Chancellors often find some money in their back pocket to guarantee positive headlines the next day, and the government did trail some giveaways ahead of the speech, such as expanding free childcare to one- and two-year-olds and extending energy bill support to the end of June.

The economic background

The year started with a cautious hope that the UK may be over the peak of the inflation crisis. According to the Office for National Statistics (ONS), overall UK consumer price inflation fell from 10.5% in December to 10.1% in January – this was the third monthly fall in a row. However, it must be said that inflation remains well above the Bank of England’s target of two per cent, and many of the factors that have pushed up prices over the last year, notably Russia’s invasion of Ukraine, still exist.

There was further grounds for optimism in the latest economic figures, which showed that following a sharp fall of 0.5% in December, GDP grew by 0.3% in January, but looking more broadly, growth was found to be flat in the three months to January, so again, the picture is mixed. Meanwhile, interest rates have risen to their highest level for 14 years, with the Bank of England’s Monetary Policy Committee voting last month to raise the benchmark rate by 0.5% to 4%. This is the tenth interest rate rise in a row.

Clearly, Jeremy Hunt faced a very challenging backdrop as he rose to speak, so let's take a look at what he announced.

The speech

Opening remarks

Mr Hunt began his statement by insisting that in the face of "enormous challenges", the British economy is "proving the doubters wrong".

The Chancellor's statement was accompanied by forecasts from the Office for Budget Responsibility (OBR), which predicts that while the economy will shrink by 0.2% this year, it will avoid falling into recession.

The OBR then expects to see GDP go up by 1.8% in 2024, 2.5% in 2025, 2.1% in 2026 and 1.9% in 2027. Inflation, meanwhile, is tipped to fall from 10.7% in the final quarter of 2022 to 2.9% by the end of 2023.

Personal taxation and allowances

What	30 hours of free childcare for children over the age of 9 months.
When	Introduction to be staggered. Working parents of two-year-olds can access 15 hours of free care from April 2024. This will be extended to all children from 9 months to two years from September 2024. From September 2025, every single eligible working parent of children aged between 9 months and 3 years will be able to access 30 free hours per week.
Comment	This provision will apply to eligible households where all adults are working at least 16 hours, from the moment maternity or paternity leave ends, for 38 weeks of the year.

What	Government to pay childcare costs upfront for parents on Universal Credit.
When	Date not confirmed.
Comment	This will apply to parents on Universal Credit who are moving into work or want to increase their hours. They will be able to claim a maximum of £951 for one child and £1,630 for two children.

What	5p reduction to fuel duty to be extended for another 12 months.
When	Immediately.
Comment	Last year's 5p cut will be maintained for another 12 months and the planned 11p rise in fuel duty will be cancelled.

What	Tax on draught beer in pubs to remain frozen.
When	From 1 August.
Comment	Draught Relief extended from 5% to 9.2%, so that the duty on draught products in pubs will be up to 11p lower than the duty in supermarkets. Duty has been increased from 20% to 23% for wine, spirits and other fermented draught products.

What	Universal Credit sanctions regime to be strengthened.
When	Date not confirmed.
Comment	Sanctions to be applied more rigorously to people who do not meet strict work-search requirements or choose not to accept a reasonable job offer. Work coaches will receive additional training to apply sanctions effectively, and parts of the process will be automated to reduce error rates and free up work coach time.

Pensions

What	Pensions annual tax-free allowance to go up to £60,000.
When	6 April 2023.
Comment	The pensions annual tax-free allowance will be increased by 50% from £40,000 to £60,000. A welcome boost for savers who are able to take advantage of the tax benefits of pension contributions, although the taper applied to high earners could restrict the potential contributions.

What	Lifetime allowance charge to be abolished.
When	6 April 2023.
Comment	The lifetime allowance charge is to be removed next month, before the allowance is fully abolished in April next year. The Government hopes this will encourage over-50s to extend their working lives.

What	Tapered Annual Allowance threshold will be increased.
When	6 April 2023.
Comment	The adjusted income threshold for the Tapered Annual Allowance will be increased from £240,000 to £260,000.

What	Pension Commencement Lump Sum (PCLS).
When	6 April 2023.
Comment	The maximum Pension Commencement Lump Sum for those without protections will be retained at its current level of £268,275 and will be frozen thereafter.

What	Money Purchase Annual Allowance to increase to £10,000.
When	April 2023.
Comment	This measure is designed to encourage working age adults not in employment to return and supplement their income, or boost their retirement savings.

Business investment and taxation

What	Corporation Tax to increase to 25%.
When	6 April 2023.
Comment	Corporation Tax is to go up from 19% to 25% for companies with over £250,000 in profits.

What	Annual Investment Allowance increased to £1m.
When	1 April 2023.
Comment	Introduced to incentivise investment, this means 99% of all businesses will be able to deduct the full value of all their qualifying investments from that year's taxable profits.

What	Full capital expensing.
When	1 April 2023.
Comment	<p>Every pound a company invests in qualifying IT equipment, plant or machinery can be deducted from taxable profits in full.</p> <p>This will be in place for the next three years, although the Government wants to make it permanent "as soon as we can responsibly do so".</p>

What	Enhanced R&D tax credits.
When	1 April 2023.
Comment	<p>An increased rate of relief for loss-making R&D intensive small and medium-sized enterprises (SMEs). Eligible companies will receive £27 from HMRC for every £100 of R&D investment.</p> <p>In addition, SME companies for which qualifying R&D expenditure constitutes at least 40% of total expenditure will be able to claim a higher payable credit rate of 14.5% for qualifying R&D expenditure.</p>

The cost of living crisis

What	Energy Price Guarantee extended.
When	Next three months until June.
Comment	The Energy Price Guarantee will remain at £2,500 for the typical household for the next three months.

What	Prepayment meter charges to be brought in line with direct debit charges.
When	1 July 2023.
Comment	This will apply to over four million households on prepayment meters.

Other measures

What	Funding for wraparound care at school.
When	2024-25 and 2025-26 academic years.
Comment	Schools and local authorities will receive £289 million in start-up funding to increase the supply of wraparound care, so parents can drop their children off between 8am and 6pm.

What	Increased funding for nurseries.
When	September 2023.
Comment	The funding paid to nurseries for the existing free hours offers will be increased by £204m from September, and then rise to £288m next year.

What	Reforms to disability benefits.
When	No date confirmed.
Comment	<p>The Work Capability Assessment is to be abolished and a new voluntary employment scheme for disabled people called Universal Support will be introduced.</p> <p>The Government will spend up to £4,000 per person to help them find appropriate jobs and implement the support they need, and fund 50,000 places per year.</p>

What	£400m plan to increase the availability of mental health and musculoskeletal resources.
When	No date confirmed.
Comment	This measure is designed to reduce the number of people being forced to leave work because of a health condition such as back pain or a mental health problem.

What	Measures to help children in foster care have a normal working life.
When	April 2023.
Comment	The Qualifying Care Relief threshold will go up to £18,140, which represents an average tax cut of £450 a year for qualifying carers.



What	Increased funding for the Staying Close programme.
When	By March 2025.
Comment	Funding for the Staying Close programme will increase by £8.1 million in each of the next two years to help more care leavers find work.

What	Mid-life MOT offer to be expanded.
When	No date confirmed.
Comment	<p>The Department for Work and Pensions "Mid-life MOT" strategy will be enhanced to increase the number of people getting high-quality financial, health and career guidance ahead of retirement.</p> <p>This will include an improved digital tool and up to 40,000 in-person mid-life MOTs for Universal Credit claimants aged 50 or above.</p>

What	New apprenticeships for over-50s.
When	No date confirmed.
Comment	Apprenticeships for over-50s who want to return to work, called Returnerships, will be introduced. These will run alongside sector-based work academies and skills boot camps.

What	£11bn increase to defence budget.
When	Over the next five years.
Comment	No doubt influenced by the war in Ukraine, the government will add a total of £11bn to the UK's defence budget over the next five years, taking the overall budget to nearly 2.25% of GDP by 2025.



What	£33m to support military veterans.
When	Over the next 3 years.
Comment	An additional £33m is to be invested in increasing the capacity of the Office for Veterans' Affairs, supporting veterans returning from their service with injuries, and increasing the provision of veteran housing.

What	12 new investment zones.
When	Investment Zone proposals to be agreed by the end of the year.
Comment	<p>These will be spread across the West Midlands, Greater Manchester, the North East, South Yorkshire, West Yorkshire, East Midlands, Teesside and Liverpool, and there will be at least one in each of Scotland, Wales and Northern Ireland.</p> <p>Each of these areas will apply to create an investment zone in a chosen location, and if successful, they will be able to access £80m worth of support for areas such as skills and infrastructure, as well as tax reliefs and grant funding.</p>

What	Regeneration and levelling up projects.
When	Various.
Comment	<p>Over £200m is to be invested in high-quality local regeneration projects across England, and a further £161 million for high-value capital regeneration projects in city regions across England.</p> <p>More than £400m will be made available for new Levelling Up Partnerships and £8.8bn will be allocated over the next five-year funding period as part of the second round of the City Region Sustainable Transport Settlements.</p>



What	Potholes fund increased by £200m.
When	2023-2024.
Comment	The increase is expected to enable local authorities to fix the equivalent of up to 4 million additional potholes across the country.

What	Increased funding for Carbon Capture Usage and Storage.
When	Shortlist of projects to be announced later this month.
Comment	Up to £20bn of support is being allocated for the support of Carbon Capture Usage and Storage development.

What	Great British Nuclear to be launched.
When	This year.
Comment	<p>The Government will launch Great British Nuclear to support new nuclear builds and bring down costs. The initiative is aimed at increasing the UK's resilience to future energy price shocks</p> <p>Mr Hunt has also confirmed that, subject to consultation, nuclear power will be classed as "environmentally sustainable".</p>

What	Extra funding for devolved governments.
When	2023-24 and 2024-25.
Comment	The Scottish Government will receive an additional £320m, the Welsh Government will get an extra £180m, and the Northern Ireland Executive will receive a further £130m.



Conclusion and reactions

Reaction to the speech

Labour leader Sir Keir Starmer responded to the Budget speech by criticising Mr Hunt for “dressing up stagnation as stability”. He described the Chancellor’s announcements as being “nowhere near the mark”, adding that “the more he pretends everything is fine, the more he shows just how out of touch they are”.

The Guardian newspaper expressed a similar view, saying “Hunt’s Budget shows Britain is doing less badly - that’s not the same as doing well”. The Daily Mail, which had effusively hailed Kwasi Kwarteng’s ill-fated fiscal event as “a true Tory Budget”, adopted a more cautious approach this time round, leading with the view that Hunt was offering a “carrot and stick”.

However, there was praise from some quarters, with the CBI describing the Budget as “a strong second act in the Chancellor’s plan for stability and growth”, and saying that the measures to help households and businesses will “secure the growth we need to boost living standards for all”.

The Institute for Fiscal Studies (IFS) responded by noting the significance of what wasn’t announced. For example, it said Mr Hunt had made a “political choice” by offering no funding to improve pay offers to striking public sector workers, and pointed out that the big personal tax rises planned for next month will still go ahead. The IFS added that while Mr Hunt is optimistic, households are still “in the midst of an enormously difficult period”.

Right-wing think tank Institute for Economic Affairs tentatively praised some aspects of the Budget, such as the abolition of the lifetime pension allowance and steps to encourage business investment. However, it said the Budget “lacks ambition” and is “nowhere near enough to jumpstart the British economy”, as the tax burden and public spending “remain historically high”.

The Resolution Foundation, meanwhile, had a mixed view of the Budget, stating it is likely to be more successful in boosting employment than investment. The organisation was particularly critical of Mr Hunt’s tax changes to discourage early retirement, describing them as “hugely regressive and wasteful”.

Conclusions

While many of the measures announced in the Budget, such as the changes to childcare and pensions, were significant, it was notable that there was no single headline-grabbing, rabbit-out-of-the-hat moment.



This will likely suit Mr Hunt, as he seeks to consolidate his position as a steady, competent pair of hands, following the chaos we saw last autumn.

At the same time, it makes political sense for the Conservatives to tentatively park their tanks on Labour's lawn on issues such as the cost of living, rather than make a full-on assault, as the general election is still likely to be at least a year away. Given the current stage of the electoral cycle, any eye-catching giveaways may have to wait.

The OBR's view that the UK will avoid slipping into recession this year is undeniably welcome news, and Mr Hunt was certainly keen to push an optimistic view of the country's economic prospects.

But whether the Chancellor's measures will help to kickstart growth, insulate households and businesses from soaring costs and boost productivity remains to be seen. Whatever happens, you can be confident that we will be at your side throughout, helping you work towards your financial goals.

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