

THE BUDGET

Member briefing – October 2021



Overview

The Chancellor of the Exchequer presented his Autumn Budget and Spending Review to Parliament on Wednesday 27 October 2021. The Budget is focused on the “post-Covid” era and aims to pave the way for the “Prime Minister’s economy of higher wages, higher skills, and rising productivity”.

Relevant documents:

- Autumn Budget and Spending Review 2021: This is the Budget and Spending Review in full. Read the documents [here](#)

Fiscal Outlook

The rebound in economic activity means that the public finances have performed better than expected in the OBR's March forecast. Public sector net borrowing (PSNB) and public sector net debt (PSND) in 2021-22 are forecast to be, respectively, £50.9 billion and 9.2 percentage points of GDP lower than expected in March.

GDP: GDP will rise 6.5% this year (up from its prediction of 4% in March) and climb 6% in 2022. GDP will return to pre-Covid levels by the turn of the year. followed by lower growth of 2.1% in 2023, 1.3% in 2024 and 1.6% in 2025

Fiscal rules: The Chancellor also set out two new fiscal rules to stabilise the public finances following Covid. Public debt must, as a percentage of GDP, be falling within three years, while day-to-day spending must be paid through taxes rather than borrowing.

Detailed summary of October 2021 Forecast (Source: UK Treasury)

	Outturn		Forecast				
	2020	2021	2022	2023	2024	2025	2026
UK Economy							
Gross domestic product (GDP)	-9.8	6.5	6.0	2.1	1.3	1.6	1.7
GCP per capita	-10.2	6.3	5.6	1.7	1.0	1.3	1.4
GDP level (2020=100)	100.0	106.5	112.8	115.2	116.7	118.6	120.6
Nominal GDP	-4.8	7.1	8.2	4.4	3.3	3.6	3.8
Output gap (per cent of potential output)	-0.4	0.9	0.6	0.5	0.1	0.0	0.0

Unemployment: Unemployment will peak at 5.2%. In 2022 unemployment is predicted to be at 4.8%; 4.3% in 2023 and 4.2% in 2024-26.

Borrowing: Borrowing will fall from 7.9% of GDP this year to 3.3% in 2022 and then 2.4% in 2023, the OBR has estimated.

Fiscal Management: The newly announced Charter for Budget Responsibility sets out the government's approach to fiscal policy and management of the public finances. Further information on the Charter can be found [here](#)

Departmental budget allocations

Total Departmental Spending:

The Chancellor outlined that total department spending will rise by 3.8% a year in real terms over this Parliament.

Overall Departmental Budgets (excluding depreciation)			
2021 – 22 (Baseline)	2022 – 23	2023 – 24	2024 – 25
£529.8bn	£526.9bn	£539.4bn	£552.6bn

Defra:

The Department for Environment, Food & Rural Affairs (DEFRA) settlement provides a £4.3 billion cash increase over the Parliament, to £7.0 billion in 2024-25, which is equivalent to a real-terms growth rate of 5.3% per year on average over the SR21 period. The Government hopes this settlement will help the UK achieve its goal of reaching net zero and halting biodiversity loss, increase resilience to flooding and coastal destruction, support innovation, and progress the levelling up agenda.

Department for Environment, Food and Rural Affairs (Source: UK Treasury)								
	Outturn		Baseline	Plans			Avg. annual real terms growth	
	'19-20	'20-21		'21-22	'22-23	'23-24	'24-25	'21-22 to '24-25
Resource DEL	2.0	4.1	4.1	4.5	4.4	4.3	3.1%	2.5%
Capital DEL	0.7	0.9	1.6	2.2	2.9	2.7	8.4%	19.6%
Total DEL	2.8	5.0	5.6	6.7	7.3	7.0	5.3%	8.1%
Ringfenced COVID-19 DEL	0.0	0.3	0.0	-	-	-	-	-
Total DEL inc. ringfenced COVID-19 DEL	2.8	5.3	5.6	-	-	-	-	-

Levelling Up, Planning and Housing

The Government launched the prospectus for the £4.8 billion Levelling Up Fund alongside the Budget in March 2021. The aim of the fund is to invest in infrastructure that improves everyday life across the UK, including town centre and high street regeneration, local transport projects, and cultural and heritage assets. The Government has identified priority places based on an index of local need to receive capacity funding to help them co-ordinate their applications.

The Government highlighted the £24 billion earmarked for housing, including £11.5 billion for up to 180,000 affordable homes (though this is mostly pre-announced money), with brownfield sites targeted for development. This links to the report published by EICs Contaminated Land Group on Brownfield Land and its role in delivering levelling up. You can read the full report [here](#)

Additionally announced was a £65m pot to digitize England's planning system. This should make processes smoother.

£9m was also pledged for councils looking to transform neglected urban spaces, with the requirement that they use the funding to create green spaces that boost biodiversity and enable carbon sequestration. According to the Climate Change Committee (CCC), the UK will need to plant at least 1.5 billion new trees by 2050 to meet net-zero, with the majority being planted in the short-term.

While restoring, expanding, and creating woodlands and forests will be important, urban tree-planting will also need to take place. The UN estimates that roughly half of the world's urban population cannot access a green space within walking distance of their home or workplace, meaning that this action will have social benefits as well as environmental.

On the wider levelling up agenda, the Chancellor announced:

- £1.7 billion worth of projects to upgrade local infrastructure through the first bidding round of the £4.8 billion Levelling Up Fund.
- The first 21 projects to benefit from the £150 million Community Ownership Fund

Initial analysis of the first 100 projects approved under the Levelling Up Fund shows that about one third are for transport projects and most of the remainder for buildings-related projects. Successful bids include a new college of medical sciences in Bolton; the reopening of the UK's oldest road suspension bridge in County Durham; a major waterfront extension in Doncaster; the regeneration of the Goods Yard in Stoke-on-Trent;

the redevelopment of Leicester station; upgrading the ferry to the Isles of Scilly; regenerating brownfield land into Ashford International Film Studios; and transforming Whitechapel Road in London.

Supporting documents have been released alongside today's Spending Review and Budget, as part of the government's wider support for levelling up across the UK. The Regions and Nations factsheets reviews the impact of the Budget on different parts of the UK. Read the documents [here](#)

Key message for members: We still await details of the Levelling Up White Paper, due to be published later this year which is expected to set out further detail on the government's plans in this area. Keep an eye for a report by EIC's sister organisation, ACE, on 'Levelling Up Principles', due to be released in November.

R&D

Announcements by the Chancellor with regards to Research and development (R&D) are aimed at delivering the Government's vision for a high-wage, high-skilled, high-productivity economy.

£20 billion by 2024-25 will be invested in public R&D. This is an increase of around a quarter in real terms over the spending review period, and makes significant progress towards the government's ambition to spend £22 billion on R&D by 2026-27 and towards achieving the economy-wide target to invest 2.4% of GDP in R&D in 2027.

Prior to the budget, the government made the following announcements:

- The £375 million Future Fund: Breakthrough to increase the supply of growth-stage venture capital to UK-based R&D intensive companies.
- The National Infrastructure Strategy, published in 2020.
- Launched the UK Infrastructure Bank, with the first investment announced earlier this week as highlighted in infrastructure intelligence [here](#)
- Confirmed a further 15 Towns Deals worth £335 million to revitalise towns across England.

Key message for members: The Chancellor announced a move to modernise the R&D tax credits regime by expanding qualifying expenditure to include cloud computing and data costs. This may increase the sort of investment in digital capability by members that can attract such credits

Net Zero and Environment

With four strategic net zero documents published last week (a separate member briefing on these is available on these – please e mail matthew.farrow@eic-uk.co.uk for a copy) it was perhaps no surprise that today's budget contained little on net zero. The Chancellor though compounded this omission by cutting APD on domestic flights and continuing the fuel duty freeze, and has been duly rewarded with blanket criticism from the environmental sector. For what it's worth, there were some useful additional green measures announced, including:

Business rates relief for green improvements to buildings: This could drive the market around energy efficiency retrofit.

Nature for Climate Fund: This is to be 'expanded' to ensure total spending of more than £750 million by 2024-25. There is also a new target to "raise at least £500 million in private finance to support nature's recovery every year by 2027 in England, rising to more than £1 billion by 2030". Alongside this is £30 million public investment in a Big Nature Impact Fund, as well as £140 million to assess the extent and condition of the country's natural habitats, which may well boost the environmental consultancy market.

EV Grants: £817m for EV manufacturers/component suppliers in North of England

NIC remit: the Commission has been given an additional objective to consider 'how its advice can support climate resilience and the transition to net zero carbon emissions by 2050.³⁷ It will also consider potential interactions between its infrastructure recommendations, the government's legal target to halt biodiversity loss by 2030 and implementing biodiversity net gain'. This could encourage the NIC to advise the government to pursue nature-based infrastructure solutions more aggressively.

Key message for members: There is a lot of new government policy coming through on net zero, and significant funding, but most net zero announcements are now made by the PM so little new for the Budget. The measures around nature recovery, though modest in some ways, show the Treasury is getting on board the nature recovery agenda which will be significant in the long term.

Taxation

The Chancellor announced a range of different taxation measures, including:

- Business rates retained and reformed
- New 50% business rates discount that will apply in the retail, hospitality, and leisure sectors, up to a maximum of £110,000
- Planned rise in fuel duty to be cancelled amid the highest pump prices in eight years
- A 4% levy will be placed on property developers with profits over £25m rate to help create a £5bn fund to remove unsafe cladding
- Tax relief for museums and galleries will be extended for two years, to March 2024

Government consultations:

- Consultation on the policy design of a Residential Property Developer Tax on certain profits from residential development activity. The consultation runs from 29 April to 22 July 2021 and can be accessed [here](#)
- HM Treasury fundamental review of business rates: This consultation seeks views on a more frequent revaluations cycle for business rates and can be accessed [here](#)
- Consultation on aviation tax reform: This consultation seeks views on reforms to Air Passenger Duty (APD) and can be accessed [here](#)

