gk strategy

INSIGHT | ADVOCACY

Beyond the headlines:

Spring Budget 2023

Overview from GK Strategy

Contributors

Phil Hope, Strategic Adviser

David Laws, Strategic Adviser

Ibrahim Zafar, Senior Associate

Sam Tankard, Associate

Monica Thompson, Associate

Hugo Tuckett, Senior Adviser

Noureen Ahmed, Adviser

Analysis from GK Strategy Adviser

Phil Hope, Strategic Adviser

Phil Hope is a former MP and Minister of State for Care Services alongside various other ministerial roles. Phil works with the GK team on all matters health and social care, including providing strategic support to investors during the investment process. While Care Services Minister, his work included development of the National Care Service White Paper, the National Dementia Strategy, the National Mental Health Strategy, and the National Autism Strategy. As an adjunct professor at Imperial College's Global Health Institute, Phil continues to have strong relationships with leading healthcare stakeholders.

There were few surprises in the 2023 budget as most of the announcements had been released in advance over the previous few days. This has become the new normal for the way the Treasury operates at budget time as a means of taking the sting out of unpopular measures and gaining maximum publicity for those that do fit the narrative, such as new money for childcare, business tax allowances, and increased defence spending.

The hard-right wing of Conservatives MPs (and the Party) will find it difficult to accept the decision by the Chancellor and the Prime Minister to keep in place the increase in corporation tax from 19% to 25% given the Conservative's commitment to lowering taxes – despite the other 'sweeteners' such as the full expensing allowance regime for businesses. They may also have concerns about the use of government funding for childcare for 1- and 2-year-olds as a significant extension of state intervention that goes against the 'small state' Conservative philosophy (whatever the workforce rationale behind it). Once introduced, it will be difficult to remove.

Two questions for Labour posed by the budget are: how does it affect Labour's chances of winning the next election; and which Conservative spending commitments beyond the date of the election will they honour?

On the first question, the key issue is whether the Conservative's budget narrative of a return to economic stability and growth is believed by key sections of their electorate who, are currently experiencing the impact of 16% food price inflation and reduced spending power in their wage packets. Can Labour be successful in reminding voters who got them into this mess in the first place?

The second question will be answered in the election Manifesto which won't see the light of day until much nearer the election. But at the very least, now the door of government funding for childcare is open, I suspect Labour will want to keep it that way.

Analysis from GK Strategy Adviser

David Laws, Strategic Adviser

David Laws is a strategic adviser to GK with a wealth of experience across education and skills. Between 2001 and 2015, David served as the Liberal Democrat Member of Parliament for Yeovil. He held various senior frontbench positions for the party in Parliament, including as its spokesperson on schools, children and families, before joining the cabinet as Chief Secretary to the Treasury in the Coalition government. From 2012 to 2015, David was the Minister of State for Schools in the Department for Education. David has served as Executive Chairman of the Education Policy Institute and the Education Partnerships Group.

It seems to have become a modern Budget "tradition" that there is pretty much nothing important that goes "unleaked" by Budget Day, and Budget 2023 has certainly maintained that tradition!

We learned essentially three things today. Firstly, the outlook for 2023 is not as bad as expected at the end of 2022. This is largely because energy prices are much lower than was then feared - this helps in cutting the cost of government energy price support and reducing the economic headwinds. Nonetheless, the economy is set to flatline for most of the year, before (hopefully!) picking up in 2024. The government expects that inflation will be back down close to its target rate of 2% by end 2023 and is expected to be very low in 2024. Of course, these are only forecasts, and we must hope that they are correct.

Secondly, we learned that the government's appetite for fiscal prudence has not lasted very long. The PM and Chancellor could have "banked" the underspend on energy bill support and the upward revision to growth, and significantly reduced the forecast borrowing numbers. Instead, the government is prioritising cost of living support (fuel duty freeze, Energy Price Guarantee extension, extra childcare support), along with nurturing growth (much more generous investment allowances) - and is throwing a bit more money at defence, and some poorly targeted pension tax changes which will deliver a boost to the incomes and wealth higher earners.

"Thirdly, this government (like most) is promising to balance the books - but in a few years' time! This requires us to believe that public spending will grow only by 1% in real terms after the next General Election (very unlikely), that economic growth will rebound to above trend levels in 2024 and 2025 (possible, but not certain), and that there will be no pre-election giveaways in Budget 2024 aimed at boosting Conservative election prospects. On the basis of today's Budget, that last assumption looks the most unlikely of them all.

Key Sector Takeaways

Economy

Will Hunt's budget get the UK growing?

It's been 17 months since the last budget announcement, made by the Chancellor at the time Rishi Sunak, with two Chancellors having since come and gone. Jeremy Hunt used his first budget to support a revival the underlying growth rate of the economy. While the Chancellor confirmed the UK will avoid a technical recession in 2023, anaemic growth in recent years has hampered the delivery of the UK's public services. Alongside Labour's push to deliver the highest sustained growth in the G7, perhaps Liz Truss' diagnosis still looms larger over the UK's political discourse than either front bench would care to admit.

There are two strands to the Government's efforts in this area: increase business investment and grow the supply of labour. To replace the super deduction (a feature of Rishi Sunak's March 2021 Budget), the Chancellor announced 100% first-year capital allowances for the next 3 years with the view to making it permanent. Separately, investment zones across the UK, an idea originally mooted in Liz Truss' infamous Growth Plan, will benefit from tax breaks in an effort to demonstrate concrete progress on the levelling up agenda.

Given the Chancellor confirmed his decision to go ahead with the rise in the Corporation Tax rate, much to the displeasure of some Conservative backbenchers, it will be necessary for the pro-investment measures announced to outweigh the greater tax burden businesses will soon face to deliver the growth his Budget targets.

To increase the supply of labour, the expansion of 30 hours free childcare for children under the age of nine months will be welcomed by many. However, the decision to abolish the Lifetime Allowance charge on pension savings has already come under attack from the opposition. with Keir Starmer arguing that the proposals go well beyond supporting NHS doctors and serve as a tax cut for the top 1%.

Time will tell whether the measures put forward to boost the supply of labour in the economy act as a very effective carrot and stick, or whether the pension reforms will simply enable the wealthy to hit their savings target ahead of schedule and retire to the golf course, much to the Chancellor's dismay.

Education

Early education and childcare, back on the agenda

The Chancellor announced several key education measures with a focus on childcare and early education. One significant measure is the extension of the 30-hours offer to working parents of children as young as nine months old in England. The scheme will be introduced in phases, with 15 hours a week for working parents of two-year-olds from April 2024, and then 30 hours for all working parents of children aged nine months up to three years from September 2023.

The budget for funding paid to early years providers for the existing entitlement for three- and four-year-olds is also set to increase. The government has allocated an additional £204 million in 2023/24 and £280 million in 2024/25. Local authorities will receive £289 million over two academic years, starting in September 2024, to provide wraparound provision at schools.

The government plans to encourage more childminders to join the sector by offering incentives of £600 for new joiners and £1,200 for those joining via a childminding agency. Additionally, plans to increase the number of two-year-old children per staff member in early years settings have been confirmed.

Local authorities will receive £289 million in "start-up" funding over two academic years to provide wraparound childcare at schools. However, there is no mention of longer-term funding for schools to provide this childcare offer. Hunt warned that parents of school-age children often face barriers to working due to limited availability of wraparound care, and it remains to be seen how long it will take for these plans to come into effect.

Yet concerns have already been raised regarding the new hourly rate for childcare and the potential supply problem that may arise due to the inability to cross-subsidise. Nevertheless, the Spring Budget 2023 represents a significant increase in childcare spending, and if implemented effectively, it could reduce costs for parents and benefit child development and education.

Energy

Hunt's 'budget for growth' a missed opportunity for Net Zero?

Hunt's so called 'Budget for Growth' had many hoping he would seize the opportunity to leverage the economic opportunities from the net zero transition and properly shore up our energy security. Whilst it seems we will have to wait until the end of March before we see more detail, when the government must respond to Chris Skidmore's Net Zero Review and publish its updated Net Zero Strategy, it is clear this budget was a missed opportunity to deliver a medium to long term solution to get off fossil fuels and work towards our 2050 net zero target.

The government's decision to focus on new nuclear and small modular reactors with the creation of Great British Nuclear, and Carbon Capture and Storage (albeit with no new money made available), will be welcome to swathes of the innovation industry, and will certainly contribute to securing an increase in the UK's long-term base load. However, the government continues to block the much cheaper onshore wind energy, and seems to have omitted other low carbon innovations such as hydrogen and electric vehicles which could have a much quicker impact on UK's energy bills.

With the USA and EU going so much faster with their investment, in the Inflation Reduction Act and the Green New Deal respectively, the lack of ambition and diversity from this budget leaves the industry feeling that we are going to be left behind in the global race for green investment.

Health

Absence speaks louder than words.

The news cycle in recent weeks has been dominated by ongoing pay disputes with NHS staff that has resulted in some of the largest strike action in the nation's history. Yet the budget was conspicuous for avoiding mention of a potential resolution. In his first fiscal intervention late last year, the Chancellor announced a £3.3bn funding boost to the NHS, yet this year's announcements relating to the social care sector; and health-related measures were mostly absent.

Yet despite the relative absence of announcements for the NHS, a potential overhaul of the Medicines and Healthcare products Regulatory Agency's (MHRA's) medicines approval system, as announced by the Chancellor, would be one of the most significant developments in drug regulations for years. The government announced £10 million to help bring innovative new medicines and medical technologies to UK patients more quickly, to help create a process for innovative healthcare technologies to get market authorisation in the UK as fast as possible. According to the Chancellor, medicines and technologies will be automatically approved by the UK where they have already been approved in the U.S., Europe or Japan, meaning the UK will be in a position to adopt new innovations in the shortest of timeframes.

It remains to be seen how this will impact the MHRAs long-running structural issues, how this will work in practice, and how this may impact on the MHRA's global reputation, yet the government hopes that there is light at the end of the post-Brexit tunnel; for medicines regulation at least.

Technology

A new era for tech in the UK?

When the government first announced a new standalone Department for Science, Innovation and Technology (DSIT) earlier this year, tech groups were initially supportive, particularly as the government made it clear that it would like to embed the right team in place not only to ensure it focused on Sunak's top priorities but to also fulfil the government's ambition to become the next leading science and technology superpower by 2030. The promise was one which the government seems to stand by, as the Chancellor used the Spring Budget to promise to prioritise all things tech.

There are a number of measures under the 'levelling up' banner that will be welcomed by UK tech, most notably those within one of the 12 re-launched investment zones receiving £16m per year for five years. Businesses will also now be eligible for 100% first year capital allowances (assuming certain R&D pre-requisites are met). There was also confirmation that government will invest £2.5 billion in quantum computing, which will take over from the current National Quantum Technologies Programme.

It's no secret that the Prime Minister makes a habit of mentioning his Silicon Valley connections, yet industry seems somewhat disappointed that more hadn't been done for start-ups in the UK, as well a lack of strategy to support the UK becoming the "'science and technology superpower' that the government wants. The introduction of R&D tax support, investment in AI, and the re-launched investment zones will be welcomed by some, but others in the sector will feel this was a missed opportunity to turn those Silicon Valley dreams into reality.

Further Information

Our Team are happy to further elaborate on our assessment and assist clients with further analysis that may be of use to them. Do feel free to contact a member of the team below for further information.

London

Scott Dodsworth
Managing Director
e-mail: scott@gkstrategy.com Phone: +44 7800 647376

Ibrahim Zafar
Senior Associate
e-mail: ibrahim@gkstrategy.com

INSIGHT | ADVOCACY