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Beyond the headlines:

Spring Budget 2024

Overview from GK Strategy

Contributors

David Laws, Strategic Adviser
Phil Hope, Strategic Adviser
Ibrahim Zafar, Senior Associate
Josh Owolobi, Associate
Sam Tankard, Associate
Hugo Tuckett, Associate
Noureen Ahmed, Adviser
Rebecca McMahon Adviser

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.

Before this week's Budget, the Chancellor talked about how truly historic Budgets can have a game-changing impact on the economy and society. But it was clear when he sat down after making his Statement on Wednesday that this was not such a historic Budget.

This was almost certainly a (pre) pre-election Budget where the Chancellor and PM are hoping to buy back a bit of support by announcing cuts in tax which will be funded by public borrowing, more or less up to the limit of what the independent Office of Budget Responsibility will allow.

The tax that Hunt and Sunak have chosen is (again) employee national insurance - a less well known and less popular tax to cut than income tax, but a more affordable option as it is not charged on pensions and savings income. Significantly, Hunt seemed to indicate that the government now has a long-term aim of scrapping this tax, which would cost roughly another £40bn to achieve, and is not therefore going to be achieved anytime soon, if ever.

The other significant announcement in the Budget was on public spending. Hunt sensibly did not cut the overall real growth rate for public spending of 1.0% beyond the 24/25 tax year, and he said there would be no Spending Review until after the next General Election. The reason for both announcements is obvious - the government's current spending allocations are implausibly low and could not be delivered without more austerity, which is unlikely to be politically acceptable. So, the Conservatives are leaving to the next government the tricky job of making all the tough spending decisions for the period from April 2025. Until then, departments will just have to guess what their budgets might be next year - not an intelligent way of running government or helping deliver productivity improvements. The problem is that once you have allocated a sensible amount to the NHS and to deliver current defence and childcare pledges, there is no money left - worse still, at present there would probably need to be spending cuts running to £20bn per year by the end of the next Parliament.

Where might one possibly find the missing £20bn? Well, interestingly, it just happens to be the sum the government happens to have utilised to take 4% off employee national insurance contributions this year. No wonder the public is sceptical - tax cuts now are highly likely to be followed by tax hikes after the next election. No doubt it won't be the same taxes, but other revenue raising targets will need to be identified.

And what about the timing of the election and what comes next? Well, no serious person is going to voluntarily call a General Election when they are 20% behind in the polls and heading for an electoral catastrophe. There is only one strategy the government can follow if it has any sense: plan for an October/November election; hope inflation falls to 2% by Spring; hope the Bank of England starts cutting interest rates soon after; hope the growth outlook improves; hope the OBR revises up its growth forecasts and gives the Chancellor more room for tax cuts; hold an October Autumn Statement; announce more cuts to taxes such as employee NICs (now rebranded the "jobs tax" to make it sound more unpleasant), and maybe inheritance tax; and time those tax cuts in April 2025 to set a trap for Labour - i.e. reverse the tax cuts and upset voters, or have to fill a bigger hole after the election.

It is a plan, but there are no signs that it is working. Why is that? It is for three reasons. Firstly, the Truss government destroyed the government's economic credibility, in the same way as our departure from the Exchange Rate Mechanism in 1992 ruined the reputation of the Major government. Once lost, a reputation for economic competence is very hard to recover. Secondly, because voters are sceptical about government tax cuts - they know that their tax allowances are frozen, and the overall tax burden is heading back to its post war high. Finally, because real incomes are stuck at a level no higher than their 2019 level, and many people are struggling badly to make their finances add up. Oh, and the government has also failed to deliver on other public priorities such as the NHS and immigration.

All this points to another fiscal event later this year, an Autumn election, and a new government that will need to pick up the pieces. Only the opposition parties are going to be happy with this Budget."

Analysis from GK Strategy Adviser

A focus on Health and Social Care

Phil Hope, Strategic Adviser

Across the health and social care sector, it is perhaps the absence of announcements in this budget that will worry people most.

There was no mention of adult social care at all in the Chancellor's speech – the staff shortages, high turnover and low pay of a sector that has 1,520,000 workers and contributes £55bn to the economy has been completely ignored. The promise at the start of this parliament to 'fix social care' has been forgotten. No extra financial support for Local Councils to increase fee levels to help care providers pay the extra costs of the rise in the National Living Wage. This will put unaffordable pressures on many social care providers and could well mean more contracts being handed back to local councils leading to more cuts in social care services and greater pressure on the NHS.

The combined effect of cutting NI and freezing income tax thresholds means people earning less than £25,000 – hundreds of thousands of care workers – could well be worse off.

On the health system, the £3.4bn NHS IT productivity deal over the next 5 years is welcome. But no extra capital for sorting out the crumbling NHS estate means overall productivity improvements may not be achieved.

The £2.4bn extra for next year will do little to help tackle the lengthy waiting lists and long waiting times for acute care. And there is no extra investment in primary and community care to help the shift of care out of institutions and into the community that the health sector has been calling for.

If this budget does not create an electoral bounce for the government over the next 2 weeks, we can expect the general election to be delayed until later in the year when the economic outlook may look better and create room for a further final 'fiscal event' in October to win over voters.

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.

Tax seasons come early.

The Chancellor bets big on tax cuts

With a General Election most likely to take place this Autumn, the Spring Budget presents the Government with one of their final opportunities to make a fiscal statement. Continuing to trail behind the Labour Party in the polls, the Government are desperate to regain some popularity through tax cuts and have been under particular pressure to deliver on this from backbenchers on the right of the Conservative Party. However, low growth has led to less-than-expected fiscal headroom for Chancellor Jeremy Hunt, who has been advised against making any radical tax cuts. As such, Hunt opted for more modest cuts to National Insurance Contributions, over cutting income tax.

Weeks before the Budget, the Chancellor had indicated that tax cuts were to be expected. After he was forced to take some difficult decisions regarding the economy in 2022, when he was first appointed, Mr Hunt is signalling his commitment to lowering taxes. The Chancellor has resisted calls from certain sections of his party to make more significant (and expensive) changes to income tax cut. Instead, he has reduced the national insurance contribution rate by 2p as a measure to boost his party's standing with the public. This follows a 2p cut that he announced at the Autumn Statement 2023.

In his speech, the Chancellor compared the UK's investment landscape to Silicon Valley and is keen to encourage entrepreneurs to invest in British business. He announced that the Government, in conjunction with the Financial Conduct Authority and The Pensions Regulator, will consult on reforms to pensions funds in the hope of facilitating growth.

While many Conservative MPs will be happy with the Chancellor's announcements, it is still unclear how voters will respond. Initial reaction was without controversy or pushback but greater investment in public services is rapidly becoming a critical issue for voters and time will tell if they take umbrage with the Chancellor's decision to focus on tax cuts later in the year.

Who's on the podium?

High growth sectors that won big in the budget

It was clear the priority for the budget was to bring forward retail tax cuts in an effort to signal to the electorate that the economy had turned a corner in an election year. However, this meant that almost all of the Chancellor's headroom went towards voters pay packets, with for the most part, very little investment for business with key sectors like education and skills, green industries and infrastructure all largely missing out. However, there were a few sectoral winners from the day – which seems to further confirm where this government sees the areas of focus for the economy.

Creative Industries

Creative Industries are one of the most significant areas of comparative advantage for the UK, and the attention to the sector is arguably the closest thing the UK has to an industrial strategy – garnering huge support from Lucy Frazer, Michelle Donelan and Jeremy Hunt. Indeed, the Chancellor announced over £1bn in new tax reliefs for the sector to continue attracting global investment to the screen sector and the arts. Continued support for the sector by this government not only encourages large businesses to make the UK a European base, but also works towards incubating new entrants to the market too through measures like audiovisual tax reliefs.

Tech and AI

A hallmark of Rishi Sunak's government has almost certainly been the increased attention to the investment and regulatory landscape for UK tech and AI, as the government seeks to make the UK the next Silicon Valley. The Chancellor highlighted the £3.5bn investment into AI and computing the sector has received over the years and outlined the government's plans to continue supporting this. From speaking at length about how technology will enable efficiency and productivity drives in public services like the NHS, to ways to boost skills which will support SMEs taking up digital technology, these collectively underscore the ongoing prioritisation this sector will receive under the remainder of Sunak's premiership. Whilst there was little new funding in the Budget, businesses will likely welcome the continued openness the Prime Minister and Chancellor has signalled to the sector and should seize the opportunity to capitalise on the ways in which tech can support and bring solutions to public life.

Life Sciences

The Life Sciences Vision continues to drive the government's commitment to establish the UK as a global hub. The Budget allocated £240m which will go towards a new life science hub in Canary Wharf, and separate plans for another hub in Euston, addressing the sector's concern for scarce lab space. The Budget was also accompanied by the announcement of £650m investment by AstraZeneca to develop facilities in Liverpool and Cambridge. Life sciences, like much of the above sectors, also benefited from new funding to advanced manufacturing initiatives to boost skills and training, including the £45m for medical charities' research to support the next generation of researchers, and renewed support for the £50m Apprenticeship Growth Sector pilot which will boost funding for eligible providers.

A Fiscal Cliffhanger

Will Hunt's budget turn the tide for the Tory's?

Jeremy Hunt's Spring Budget is a clear pivot into campaigning mode for the Conservative Party keen to emphasise its tax cutting credentials and undermine Labour's revenue-raising proposals.

The Chancellor's decision to abolish the 'non-doms' regime, which allows certain wealthy individuals to avoid paying tax on their foreign income, is expected to raise £2.7 billion a year. More pertinently, it blunts Labour's ability to use the revenue raised to fund its own commitments having been one of the Party's few tax-raising measures. The Shadow Chancellor Rachel Reeves had said Labour would use the money from abolishing the regime to expand the NHS workforce.

Transitional arrangements which mean new arrivals to the UK will not pay taxes on foreign income for four years does leave the door open to Labour tightening the regime further. However, by acting now, the Conservatives have forced Labour to look for alternative revenue-raising instruments.

The Government has also put forward measures to demonstrate the Conservative Party's ambition to reduce the tax burden. The Chancellor has cut workers' National Insurance by 2p, meaning it will fall from 10% to 8%. This follows the Chancellor's decision in the 2023 Autumn Statement to reduce rates from 12% to 10%. The Office for Budget Responsibility, the independent body which makes forecasts for the Government, has though predicted that the overall tax burden is still set to rise to 37.1% of GDP in 2028-29, the highest level since 1948.

Better near-term projections indicate that inflation is forecast to drop below the 2% target from its current rate of 4% later this year, and a year earlier than predicted in the 2023 Autumn Statement. This allows the Prime Minister and Chancellor to position themselves as guardians of a delicate economic recovery in the months ahead, potentially resulting in a boost to the polls – should they receive credit from the electorate.

Given the reasonably limited tax and spend commitments put forward in the Spring Budget, the likelihood of the General Election taking place later in the year – October or November – has risen. This timeline allows the Chancellor to hold a separate fiscal event in the summer to present more aggressive tax-cutting proposals. It is likely that the measures announced would come into effect in 2025, shortly after the General Election, to force Labour to either commit to the measures or explain how they would raise the money to fund their manifesto commitments.

A later General Election also allows the effects of falling inflation and potential interest rate cuts (this power rests with the Bank of England) to feed through into household finances. Rishi Sunak and Jeremy Hunt would then look to make their management of the economy a central piece of the Conservative Party's election pitch.

Further Information

Our Team is 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 Phone: +44 7910071534

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