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Engineering and Machinery Alliance

Review of Chancellor's Spring Budget 2024 - comment welcome.

Context

Chancellor Jeremy Hunt's spring Budget was arguably the most challenging in living memory. Fiscally, things are even tighter than when Labour's out-going treasury minister Liam Byrne famously left a note in 2010 saying "I'm afraid there's no more money". Politically, in an election year the chancellor is squeezed between the official Opposition and tax-cutting demands from the right of the Conservative Party, Reform UK and some newspapers – with the *The Daily Telegraph* drawing inspiration from Javier Milei, the radical president of Argentina.

Much debated in the run-up to the election was whether the UK has only just dipped into technical recession, based on GDP, or has been in decline for almost two years, using GDP per person – the measure Labour prefers to use. This issue was even referred to by Hunt in a curious short passage of his Budget speech: "But as growth returns, our plan is for economic growth not sustained through migration but one that raises wages and living standards for families. Not just higher GDP but higher GDP per head."

The Budget came against a background of declining public services, pressure on local authority budgets and solvency, and a need for more investment in defence, in energy and transport infrastructure, and in education and skills.

Paul Johnson, director of the Institute for Fiscal Studies (IFS) and one of the most widely-respected economic commentors, observed last November: "The chancellor just announced a long-term cash freeze in investment spending. That's a significant real cut of course. We already have public sector investment well below that in most comparable countries. That is not good for growth."

An enduring question asked for many years is: "Where is growth going to come from?"

OBR outlook report

A strong theme in Budget week has been lower labour force participation, being offset by growing inward migration and much of the comment was underpinned by the outlook report of the Office for Budget Responsibility (OBR), published with the Budget.

The OBR forecast that the total UK adult population would "rise from 55 million in 2023 to 57 million by the end of the forecast [end 2028], 1¾ per cent larger (or 1 million more people)" than in its November forecast. Economic inactivity is now expected to be more persistent than previously thought, it said.
In one of the brightest predictions of the Budget period, OBR forecast real household disposable income per person to recover its pre-pandemic peak by 2025-26, two years earlier than in our November forecast, and to continue to increase in the two years after that.

There is a caveat to these forecasts. OBR said: "We continue to emphasise the uncertainties around our forecasts and the possibility that any of our key judgements could prove too optimistic or pessimistic. Key risks for this forecast include a highly uncertain outlook for inflation – the OBR's central forecast is for inflation to return to target this year; and productivity growth, with figures now showing a larger population producing a similar level of output.

A low-key Budget

The Budget was low-key, interesting as much for what was absent as what was included. It had been flagged in advance that there would be little on skills, including apprenticeship levy reform, and that proved to be the case, disappointing as it will be for many larger firms. There was little new on net zero – a subject about which both main parties seem less keen to talk – and nothing on reviving demand for electric cars.

The freeze on income tax thresholds until 2028 remains. The National Insurance upper earnings limit also remains unchanged. Corporation tax thresholds remain unchanged – in effect, tax rises, given inflation.

Significant announcements included:

- Two-percentage-point reductions in the "main rate" of employee and self-employed National Insurance contributions, to 8% and 6% respectively, costed at £10 billion a year. These come on top of the cuts announced last autumn which, taken together, the OBR estimates will see an additional 200,000 people in work, Hunt said. Labour leader Sir Keir Starmer stressed that his party supported the 2p cut "because we have campaigned to reduce the tax burden on working people over the whole parliament".
- Hunt indicated that he would like a single employment tax in due course – no timescale was given - rather than the "double taxation unfairness". If implemented, the idea would cost £46 billion a year, it emerged.
- Draft legislation to be published shortly for full expensing to apply to leased assets, to support SMEs, with the change to be brought in "as soon as it is affordable". EAMA understand that Labour supports the idea.
- The Recovery Loan Scheme, due to end in June, is to be re-named the Growth Guarantee Scheme and extended for a further two years at £200 million over the extension period, which I understand from HM Treasury is an unchanged funding level. The scheme was previously known as the Covid Business Interruption Loan Scheme, CBILS, which was itself modelled on the Enterprise Guarantee Scheme (ESG), and gives banks guarantees that help them to lend to SMEs.
- Various further details of implementation of investment zones, set up to attract firms in advanced manufacturing and other growth sectors, and publication of the prospectus for the Investment Opportunity Fund to secure private investment in Investment Zones and Freeports.
- Up to £120m increase to the Green Industries Growth Accelerator (GIGA) to further support expansion of low carbon manufacturing supply chains across the UK. The total fund, now at almost £1.1bn , will be split between the clean energy sectors with around £390m to expand UK-based supply chains for electricity networks and offshore wind sectors, around £390m for carbon capture, utilisation and storage and hydrogen sectors, and the remaining £300m previously announced for UK production of the fuel required to power high-tech new nuclear reactors.
- Schroders Capital awarded £150 million by the British Business Bank to invest in UK science and tech companies.
- From April, eligible apprenticeship providers will benefit from targeted payments worth £3k for every start in 13 high-value advanced manufacturing and engineering, green and life sciences apprenticeships standards: the 13 selected standards for the pilot are as follows:

Electrical Power Networks Engineer
Machining Technician
Pipe Welder
Plate Welder
Process Leader
Nuclear Technician
Water Environment Worker
Corporate Responsibility and Sustainability Practitioner
Construction Design and Build Technician
Construction Support Technician
Surveying Technician
Science Manufacturing Technician
Laboratory Technician

- Digital Technology Package which includes measures relevant for SMEs such as the SME Digital Adoption Taskforce and the AI Upskilling Fund Pilot.
- The VAT threshold is to be lifted by £5,000 to £90,000, the first increase in seven years. There is a continuing debate as to whether it should be raised to reduce the burden on more business and discourage fraud or be kept low so that businesses get used to VAT from the start and don't see it as an obstacle to growth.
- Defined contribution and local government pension funds will in future be required to disclose their level of international and UK equity investments. The government may consider further measures after that "if we are not on a positive trajectory towards international best practice", Hunt said. *City A.M.* reported last week that "pension funds used to be core investors in listed companies and specifically UK equities, but the latter has diminished from 44% to 4% currently".
- The Energy Profits Levy (EPL) was extended by a year to 2029 on the basis that oil prices have remained high, and reportedly to help pay for the NI cut. Scottish Conservative leader Douglas Ross said the measure was "deeply disappointing" and that he would vote against it. Labour has said it will keep the EPL for the duration of the next Parliament, close certain loopholes and increase the rate by three percentage points to 78%.
- "We want to encourage investment in the North Sea so we will retain generous investment allowances for the sector," Hunt said, a statement likely to anger environmental groups.
- Fuel duty: the long-running freeze continues. Duty calculations are linked to RPI and the increase would have been 13%. Hunt said he had listened to MPs and to *The Sun* newspaper, and Labour was quick to support the fuel duty freeze.
- The 5p fuel duty cut is extended for 12 months.
- There was a revised National Networks National (sic) Policy Statement from the Department for Transport, which refers to an "historic £8.5 billion investment into roads re-surfacing", using money taken from the HS2 budget. There may be surprise that maintenance spending – following decades of under-spend – should be referred to as "investment" at all.
- Non-dom tax status is to be abolished – adopting a Labour policy that the Conservatives have previously rejected.

Budget reactions and comments

Labour leader Sir Keir Starmer said in the Commons that the Budget was "the last desperate act of a party that has failed". He said that taxation was not at a 70-year high, there was no plan for growth, and that record levels of migration have prevented even deeper [economic] decline in the UK. "Migration is all they have in terms of growth," he told the Commons.

Starmer noted that prime minister Rishi Sunak had confirmed, in 2022 when he was chancellor, that in 2024 the 20p income tax rate would be cut to 19p. Local authorities were being driven to large increases in council tax, which amounted a heavy stealth tax, he said.

Shadow chancellor Rachel Reeves told the Commons that the intention to scrap employee NI was "a £46 billion [a year] unfunded commitment" which came like an after-thought near the end of his Budget speech. This would leave a hole in public finances even larger than the Truss/Kwarteng "kamikaze budget" of autumn 2022.

The Office for Budget Responsibility has forecast GDP/capita to fall for four of the next five years and had revised upwards net migration into the UK over the next five years by 350,000, she added.

GB News presenter and former Brexit Opportunities minister Jacob Rees-Mogg said: "Taxation would be higher under a Labour government".

Reform UK leader Richard Tice tweeted: “This Budget was proof that you can't polish a turd because the British economy, after years of mismanagement by the toxic Tories, is in recession.” He added: “This Budget continues more wasteful government spending, wasting tens of billions on net zero.”

Paul Johnson (IFS): “Spending plans assume big cuts in day-to-day spending for “unprotected” areas such as justice, social care, police, Further Education, local government. No information on where those cuts might fall. Conveniently, spending review for after the next election.” Even if barely-plausible savings of £20 billion in public service spending can be found, and fuel duties rise – “which they won’t” – we are not getting debt on a downward path, he said.

Torsten Bell, Resolution Foundation: “Overall, taxes are going up, not down.”

Chris Southworth, secretary general, International Chamber of Commerce (ICC) UK: “There was, yet again, no mention of trade. Have we forgotten that our economy depends on trade… I can’t remember the last time I heard any substantive announcement from HM Treasury on trade or when trade was last presented as a core lever for growth.”

Andy Haldane, former chief economist at the Bank of England, now chairman of the government’s Levelling Up Advisory Council, told the BBC that he thought the government's self-imposed spending limits, "fiscal rules", were stunting economic growth. Haldane has recently called for a “root and branch” review of local government funding to avoid further cuts and for a loosening of monetary policy to avoid deeper recession.

Haldane said: “We’re just about getting far enough away from the Truss Budget to think that financial markets have regained their poise, and therefore something that tells a good story about growth, even if it were at the expense of a bit more borrowing, would be accepted. It would even be welcomed.”

Norman Lamont, former chancellor: In the event, the Chancellor did pretty well: both politically and delivering a responsible Budget. The problem for the Chancellor was that according to the OBR he had little scope for giveaways, whether increased public expenditure or tax cuts.”

Liz Truss retweeted a post from her new PopCon group: “Whitehall groupthink and powerful quangos, like the OBR, are stifling our ability to grow the economy, lower taxes and create jobs.”

EAMA comment

The big news for industry came last autumn with the extension of full expensing. The cut in National Insurance will be welcome – especially if it succeeds in attracting 200,000 people back to work; the continued freeze on tax thresholds, less so.

The extension of the RLS/Growth Guarantee Scheme, which EAMA urged, is a positive step and deserves more coverage than it has had. The scheme can be a real help to firms in the machinery sector. It would have been better if the announcement had been for more than two years.

EAMA has also supported a campaign for leasing to be included to full expensing and we have told the government that we welcome that announcement and are keen for the policy to progress.

We were hoping – rather than expecting – for stronger and more urgent support for the manufacturing sector than was contained in the Budget. The Made Smarter Adoption funding increase from 2025 was announced last autumn but that policy area needs further development.

We share the disappointment of ICC UK's Chris Southworth at the absence of measures relating to trade support.

Looking forward, an overhaul of education and skills policy and budgets, from schools to Higher Education, is needed and must be one of the priorities for government. For example, the UK is going to see a surge in 18-year-olds, from 700,000 in 2020 to 850,000 in 2030, which presents both a challenge and opportunity which we are insufficiently equipped to meet.

Jack Semple
Secretary
8th March 2024