HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

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Spring Budget 2020: a summary

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Introduction

Spring Budget 2020 was presented by the Chancellor of the Exchequer to Parliament on 11 March. Once the Chancellor sat down the Office for Budget Responsibility (OBR) published updated forecasts in its Economic and fiscal outlook.

The Budget comes at a time when concerns are rising about the public health and economic impacts of the coronavirus. The OBR's forecast figures don't reflect the latest developments with the virus.

This is the first budget since the UK formally left the EU. The UK is currently in a transition period during which nearly all EU rules will continue to apply. The transition period is set to end after 31 December 2020. A future relationship is being negotiated by the UK and EU for the post-transition period.

1. Measures to limit the economic impact of coronavirus

The scale of the economic shock from the coronavirus (Covid-19) outbreak is still uncertain and evolving. The Chancellor has said there will be "significant impact" but disruption to the economy is likely to be temporary.[1]

The Chancellor announced a series of measures designed to support public services and the economy during the coronavirus outbreak.[2] He described them as: "temporary, timely and targeted."[3] They can broadly be grouped into three categories and will cost approximately £12 billion in total (subject to take-up).

1.1 Additional NHS funding

Funding for the NHS and other public services to deal with coronavirus will be made available. The Government has set initial funding at £5 billion. This will cover the cost of treating patients, funding local authorities to support social care services and funding other public services as needed. It would also provide money to research Covid-19. The Chancellor said: "whatever extra resources our NHS needs to cope with coronavirus – it will get."[4]

1.2 Loans and tax relief for businesses

Measures totalling £6 billion include:

- For one year (2020/21), businesses in the retail, leisure and hospitality sectors with a rateable value of below £51,000 will not pay business rates.
- The Government will cover the cost of statutory sick pay for companies, who would normally pay this, with fewer than 250 employees (for up to 14 days).
- Local authorities will be funded to provide around 700,000 small businesses currently eligible for small business rate relief or rural rate relief with a one-off grant of £3,000.
- The British Business Bank will launch the Coronavirus Business Interruption Loan Scheme, with loans of up to £1.2 million for small businesses. The government will guarantee 80% of the loan.
- An extension of HMRC's Time to Pay service, which allows eligible businesses to defer tax payments.

[1] An extended version of this section is available at Commons Library Insight, Budget 2020: Measures to limit the economic impact of coronavirus, 11 March 2020
[2] HM Treasury guidance, Support for those affected by COVID-19, 11 March 2020
[3] HM Treasury, Budget Speech 2020, 11 Mach 2020
[4] Ibid.

1.3 Statutory sick pay and changes to benefits

Those diagnosed with Covid-19, or those advised to self-isolate, will be eligible for statutory sick pay from day one (instead of day four). Individuals, such as the self-employed, not able to claim this but who are diagnosed with Covid-19 or told to self-isolate will see changes to contributory Employment and Support Allowance and Universal Credit to make it quicker and easier to claim these benefits. This will cost £500 million.

In addition, £500 million in funding is available to local authorities to help vulnerable residents. The Government says it expects most of this to be spent on council tax relief.

Box 1: Bank of England cuts interest rates and incentivises banks to lend

On the morning of the Budget on 11 March, the Bank of England's Monetary Policy Committee (MPC) cut interest rates by 0.5 percentage points. This took the main base rate to 0.25%, the equal lowest it has ever been.

The rate cut was made in response to the spread of coronavirus (Covid-19) and the risk this poses to the economy. The move was made outside of the MPC's regularly scheduled meetings. The next MPC policy meeting is still scheduled to end 26 March.

The MPC also announced the introduction of a new 'Term Funding scheme with additional incentives for Small and Medium-sized Enterprises' (TFSME). This is designed to ensure banks pass on the interest rate cut by giving them access to cheap loans. The amount they can borrow is linked to the amount they lend to households and firms (especially small- and medium-sized ones). The scheme is funded from newly-created Bank reserves (money) and "could provide in excess of £100 billion" in funding. It will be available to banks over the next 12 months. They will have four years to repay any loans taken.

In addition, the Financial Policy Committee lowered the amount of reserves banks are required to hold – the countercyclical capital buffer was cut from 1% to 0% – in order to free up this money for lending to businesses.

Mark Carney, the Bank's Governor, said that the moves were intended to provide support to the economy in order to "keep firms in business and people in jobs". The overarching goal was to "help prevent a temporary disruption [to the economy] from causing longer-lasting economic harm". He noted that the Bank was coordinating its actions with the Government and that the Bank will take further steps if deemed necessary to support the UK economy.

2. Policy announcements

The Chancellor announced significant increases in government spending. Day-to-day spending is set to be £35 billion higher in 2023/24 than previously planned. The Chancellor plans to increase investment spending from 2.2% of GDP in 2019/20 to 3.0% of GDP in 2024/25.

The Chancellor also announced tax measures, several of which were included in the Conservative manifesto.

The Chancellor has delivered the Budget within the rules for the public finances set out in the Conservative manifesto.[5] These rules may be revisited in a review of the Government's overall policy for managing the public finances. The review will report by Autumn Budget 2020.

Budget policy announcements not related to coronavirus included:

2.1 Tax

- **National Insurance Contributions (NICs):** threshold at which employees and the self-employed start to pay NICs on their earnings will increase to £9,500 in April 2020. The threshold would have increased by inflation to £8,788.
- **Corporation tax rate:** stays at 19%. It was previously due to fall to 17% in April 2020.
- **Fuel duty:** frozen in 2020/21, for the tenth consecutive year.
- **Alcohol duty:** frozen on all rates in 2020/21.
- **e-publications:** zero rate of VAT from 1 December 2020.
- **Tampon tax:** zero rate of VAT on women's sanitary products from 1 January 2021.
- **Immigration health surcharge:** increase to £624 (currently £400). The Budget also announced a new discounted rate of £470 for children and an extension to EEA nationals.
- **Plastic packaging tax:** introduced from April 2022, set at £200 per tonne of plastic packaging containing less than 30% recycled plastic.
- **Business rates**: the Government had already announced that, for one year from 1 April 2020, the business rates retail discount for properties with a rateable value below £51,000 in England will increase from one third to 50% and will be expanded to include cinemas and music venues. The Budget announced that, to support small businesses in response to COVID-19, the retail discount will be increased to 100% and expanded to include hospitality and leisure businesses for 2020/21.
- The Government had already announced that pubs in England with a rateable value of less than £100,000 will receive a £1,000 discount

[5] See section 5 of the Library briefing Spring Budget 2020: Background briefing for more.

on their business rates bill in 2020/21, which is in addition to the retail discount. The Budget announced an increase to £5,000.

- Qualifying employers can claim an allowance against their National Insurance contributions. This **employment allowance** will increase from £3,000 to £4,000 in April 2020.
- The rate of **R&D expenditure credit** on qualifying spending – broadly speaking, spending on R&D-related activities – will increase from 12% to 13% from April 2020. This is a relief on corporation tax.
- **Red diesel:** removal of entitlement to use red diesel – which receives a duty rebate – expect for agriculture, rail, fish farming, and non-commercial heating, from April 2022.
- **Entrepreneurs' relief**: reduction in lifetime limit on gains eligible for relief to £1 million, from 11 March 2020. The lifetime limit was £10 million.
- **Pensions relief**: the annual allowance taper threshold and adjusted income limit are being increased. The minimum annual allowance is being increased. This is to address issues deterring some doctors from taking on more hours.

2.2 Spending

- **Departments' day-to-day spending:** increased by around £30 billion a year from 2021/22. Some of which is met through the direct benefit of not making payments to the EU budget as a member state.
- **NHS:** extra £6 billion over this Parliament.
- **Department's capital spending:** increased by around £14 billion a year in 2020/21 – 2023/24 and over £22 billion in 2024/25. Other, more specific, capital spending was also announced.
- **Roads:** £27 billion investment in English strategic roads between 2020 and 2025.
- **Urban transport**: £4.2 billion for five-year, integrated transport settlements for eight city regions.
- a £2.5 billion **National Skills Fund** to improve the technical skills of adults
- **Broadband:** £5 billion to support the rollout of gigabit capable broadband in the most difficult to reach 20% of the country.
- **Housing:** additional £9.5 billion for the Affordable Homes Programme, from 2021/22 to build affordable homes across England.
- **Flooding:** the Government will double the amount it invests in the flood and coastal defence programme in England to £5.2 billion over six years.
- **R&D:** plans to increase public R&D investment to £22 billion per year by 2024/25.

- **Building safety:** additional £1 billion to remove unsafe cladding from residential buildings above 18 metres.
- **Distilleries:** £10 million for R&D spending to help decarbonise UK distilleries, including the whisky sector.
- **Scottish food and drink:** £1 million campaign to promote the Scottish food and drink sector.
- **Devolved governments:** Scotland's block grant will increase by £640 million, Wales's by £360 million and Northern Ireland's by £210 million through to 2020/21. This is before any adjustment for tax devolution.

2.3 Other announcements

- **National Living Wage:** target for the National Living Wage to reach two-thirds of median earnings and be extended to workers aged 21 and over by 2024, provided economic conditions allow.
- **Spending Review:** Comprehensive Spending Review 2020 – setting out departments' future budgets – to conclude in July.
- **Fiscal framework:** the Budget was delivered to meet the fiscal rules set out in the Conservative manifesto (see section 5 of the Library briefing Spring Budget 2020: Background briefing for further information). The Government will review its policy for the public finances – its fiscal framework – and will report back by Autumn Budget 2020. The review will include the fiscal rules.
- **Business rates:** fundamental review of business rates, due to report in the autumn. Terms of reference for the review have been published.
- **Fintech:** announcement of review of the UK fintech sector, led by Ron Kalifa OBE, to support growth and competitiveness in the sector.

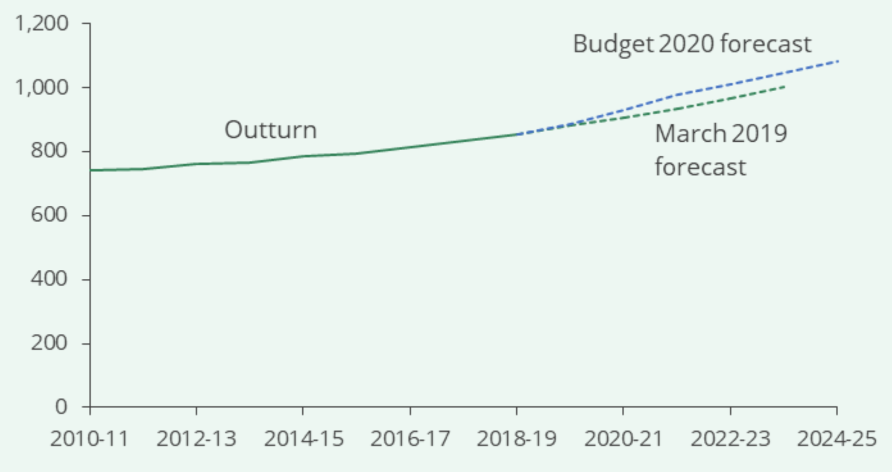
3. Increases in public spending

3.1 Overall spending up by tens of billions

The Budget contains some significant spending increases, even without accounting for the new spending to support the economy through the coronavirus outbreak.

The OBR's new projections show total spending as being about £45 billion higher by 2023/24 than was forecast last year; total annual spending is now projected to break the trillion-pound mark in 2022/23, around two years earlier than previously forecast.

Total public spending projections
£ billions, not adjusted for inflation



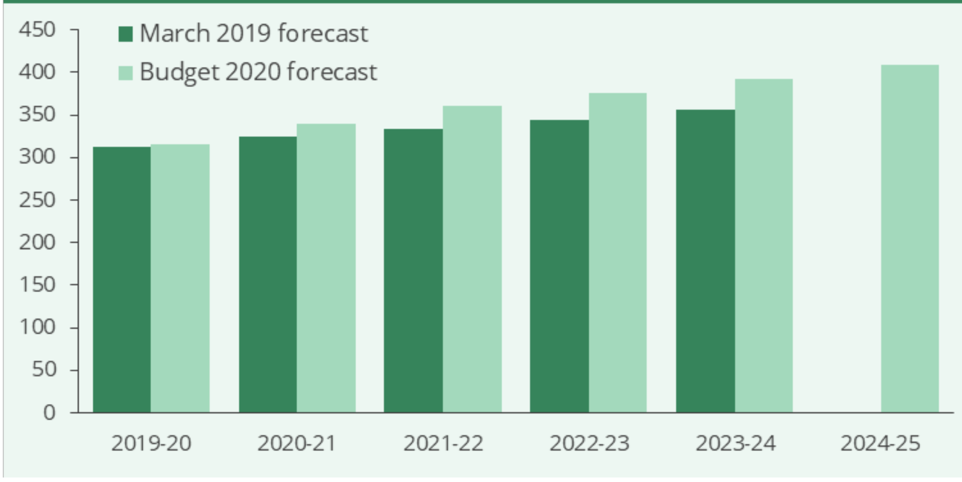
Source: Office for Budget Responsibility, Public finances databank (multiple editions)

3.2 The new Spending Review envelope

In his speech, the Chancellor announced the official start of this year's Comprehensive Spending Review, which will set departmental spending limits for the next three years (out to 2023/24 for day-to-day spending, and 2024/25 for investment spending). The Budget includes the envelope for this Review – that is, the total amount of money that will be available to allocate between departments.

The OBR estimates that the envelope for planned day-to-day spending is around £35 billion higher in 2023/24 than it had previously forecast, reaching a total of over £400 billion by 2024/25.

Planned day-to-day spending projections
RDEL, £ billions, not adjusted for inflation

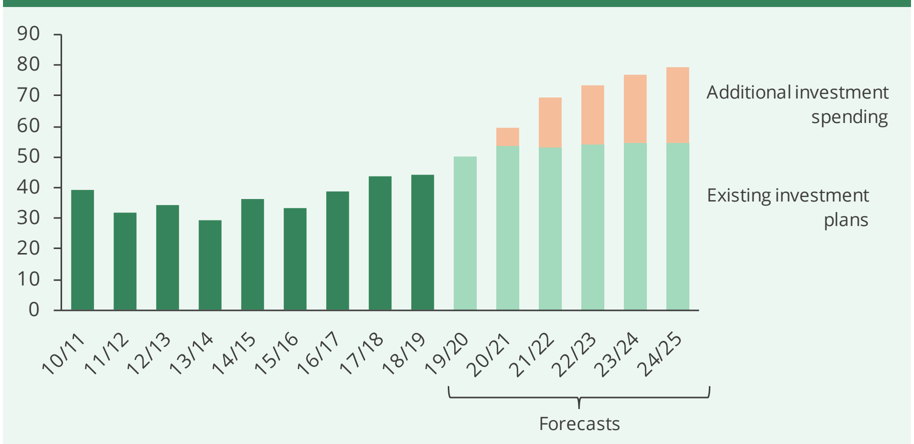


Source: Office for Budget Responsibility, [Economic and fiscal outlook – March 2020](), 11 March 2020

3.3 A step change in investment spending

The Budget includes a big increase in investment spending. Compared to the March 2019 forecast the new plans add £88 billion to total public sector net investment over the next five years.

The Budget includes an additional £88 billion investment spending over the parliament. *Public sector net investment, £ billion*



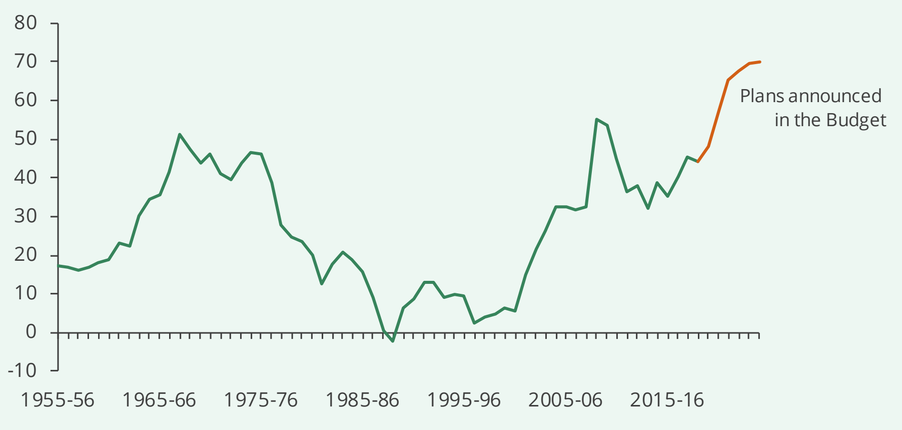
Source: OBR, [Public finances databank](), March 2020
Public sector net investment, £ billions**,** current

The new investment spending increases gradually. In 2020/21, investment spending will increase by £6 billion to £60 billion. In 2024/25, investment spending will increase by roughly £24 billion to £79 billion.

As a percent of GDP, investment spending is set to increase from 2.2% of GDP in 2019/20 to 3.0% of GDP in 2024/25.

In real terms, the investment spending plans announced in the Budget are unprecedented since at least 1955. Investment spending is forecast to reach £70 billion 2024/25 in 2018/19 prices. The previous record was £53 billion in 2009/10.

The Budget includes plans for record levels of investment in real terms. *Public sector net investment, 18-19 prices, £ billion*



Source: OBR, Public finances databank, March 2020

Public sector net investment, £ billions, real terms (2018/19 prices)

However, the OBR notes that[6]

> …history shows that departmental capital [investment] budgets are almost always underspent.

Challenges include a lack of 'shovel ready' projects and potential shortages in the skilled workforce required to deliver many new projects.

6 OBR, *Economic and Fiscal Outlook March 2020*, p97, Box 3.2

4. OBR forecasts

The OBR published new forecasts for the economy and public finances alongside the Budget.

These are the OBR's first forecasts since March 2019, although the figures for the public finances were 'restated' in December 2019 to take into account major revisions to government borrowing statistics. We use the restated figures in this briefing.[7]

The OBR's final underlying forecasts closed a couple of weeks before Budget day. At that point, key judgements, including about the economy and the financial markets, were finalised.

Therefore, the very latest developments with the coronavirus, new policy responses to it, and recent developments in the financial markets will not have factored into the forecast.

The charts, tables and discussion below, which summarise the forecasts, should therefore be interpreted with some caution.

The forecasts remain useful for understanding the OBR's view on developments in the economy and public finances up to a couple of weeks ago (for example the effect of developments in our understanding of the government's plans for Brexit and the substantial new long-term spending commitments). This includes in particular the OBR's view on the longer term health of the economy and public finances, which is what we concentrate on below.

The short-term forecasts, in particular for 2020, should however be read with a substantial pinch of salt.

Box 2: The OBR will produce an additional forecast on 13 March

The OBR is required to produce at least two forecasts in each financial year. As Autumn Budget 2019 was cancelled, the OBR's Spring Budget forecast will be their first of 2019/20. Once this is published there will only be a few weeks left of 2019/20.

So that the OBR can fulfil its legal responsibility to produce two forecasts, the Chancellor has commissioned another forecast, which will be published on 13 March 2020.[8] Coming two days after the Budget, this additional forecast will pick up, in the words of Robert Chote, the Chair of the OBR, "some of the loose ends that always remain at the end of the forecast process".[9]

An alternative solution to the dilemma would have been to seek Parliamentary approval for amending the law to set aside the OBR's duty to publish two forecasts in 2019/20. For Mr Chote, this was the cleanest solution, but it would have taken Parliamentary time and approval.

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7 The revisions were a result of accounting changes (most notably for student loans) and a correction to an error in corporation tax receipts. The OBR's restated forecast discusses the changes made by the ONS in more detail.

8 Letter from Chancellor of the Exchequer to Robert Chote on OBR's second forecast, 27 February 2020

9 Letter from Robert Chote to Chancellor of the Exchequer on OBR's second forecast, 27 February 2020

4.1 Public finances

The Chancellor announced, "the largest sustained fiscal loosening since the pre-election Budget of March 1992". This was the opinion of the OBR even before the package of measures announced to support the economy through the coronavirus outbreak.

Here we look at what the 'fiscal loosening' and other factors have meant for the public finances. As mentioned previously the very latest developments with coronavirus, new policy responses to it, and recent developments in the financial markets are not factored in.

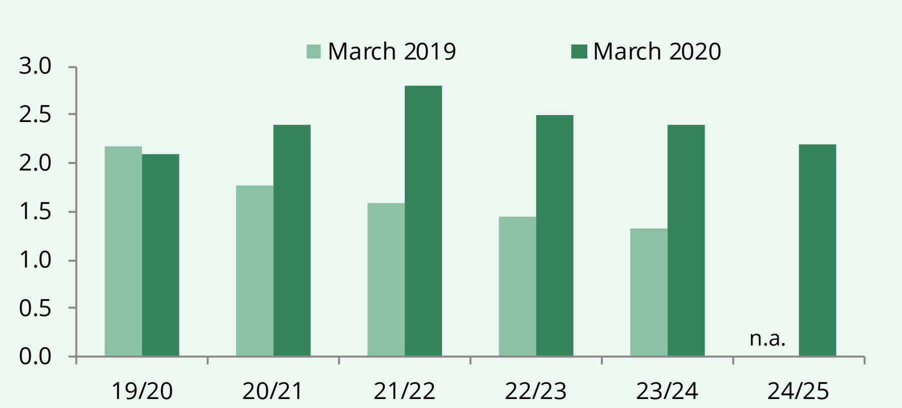
Government borrowing (the deficit)

When the Government spends more than the revenue it raises from taxes and other sources, it must borrow. The borrowing is sometimes referred to as the budget deficit.

The OBR's forecast for government borrowing has increased significantly, relative to its restated March 2019 forecast. This is mainly a result of the Government announcing significant increases in both investment and day-to-day spending (see Section 3).

In its restated March 2019 forecast, the OBR forecast that borrowing would be around £33 billion in 2023/24. Borrowing is now forecast to be a little over £60 billion in 2023/24, which is equivalent to 2.4% of GDP.

Public sector net borrowing, % of GDP



Focusing on 2022/23, relative to the previous forecast increases in borrowing are largely the result of:

- £31 billion of extra departmental day-to-day spending
- £15 billion of extra departmental investment spending

Whilst this extra spending increases the borrowing forecast other measures lower borrowing relative to the previous forecast:

- spending is reduced by £7 billion using the direct fiscal savings from no longer making budget contributions as an EU member state
- tax measures increase revenues by around £8 billion
- around £10 billion of extra revenues/lower spending arises indirectly out of the Government's decisions at the Budget. Some of this

benefit is a result of the cyclical boost to the economy provided by the Government loosening the purse strings

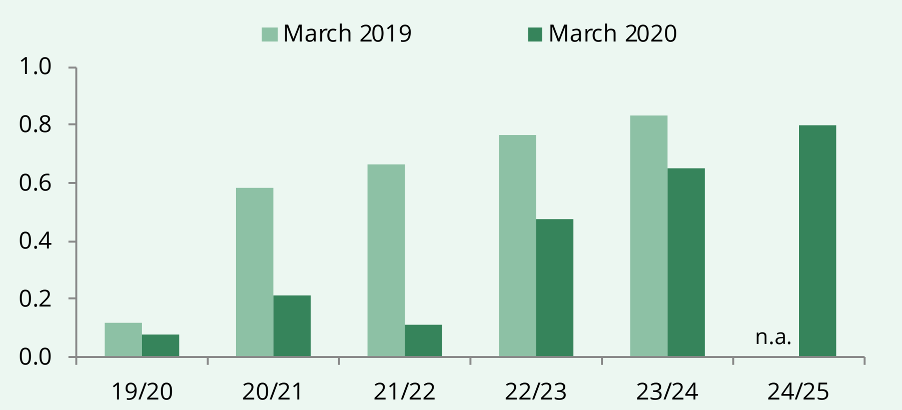
Current budget deficit

The current budget deficit measures the difference between government current spending – day-to-day spending on running public services, grants and administration – and government revenues from taxes and other sources. The current budget excludes government's net investment spending. The current budget is in surplus when the government's revenues are greater than its day-to-day spending.

The Conservative manifesto set out rules for managing the public finances. One of these rules calls for the current budget to be in surplus (or at least in balance) no later than the third year of the OBR's forecast period, which is currently 2022/23. The two other rules focus on government investment and spending on debt interest.[10]

The OBR forecast that there will be a current budget surplus of nearly £12 billion in 2022/23, equivalent to around 0.5% of GDP. The Government is therefore forecast to be meeting its target of at least balancing the current budget. The OBR forecasts a smaller surplus in every year, relative to their restated March 2019 forecast.

Current budget surplus, % of GDP



Again, public spending increases are at the heart of the change to the OBR's forecast. Extra day-to-day spending lowers the current budget surplus by around £31 billion in 2022/23, relative to the March 2019 forecast. The Government's extra investment spending has no direct effect because investment spending is excluded from the current budget.

Factors such as direct savings from no longer paying into the EU Budget and tax measures add to the forecast surplus.

Public sector net debt

Public sector net debt is the overall level of government indebtedness, built up over many years. Broadly speaking, it is the stock of borrowing arising from past budget deficits.

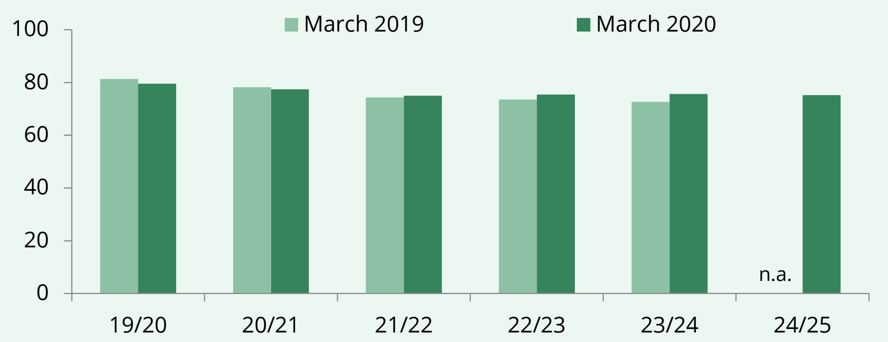
10 See section 5 of the Library briefing [Spring Budget 2020: Background briefing]() for more.

The OBR's forecasts for debt do not include the measures announced by the Bank of England (BoE) on the morning of the Budget (see Box 1). The Term Funding scheme (with additional incentives for Small and Medium-sized Enterprises) will add up to £100 billion to public sector net debt.

The OBR forecast that the debt-to-GDP ratio will be around 75% of GDP through the latter years of its forecast.

Higher debt is forecast in the latter years of the forecast, relative to the March 2019 forecast. This is broadly the result of extra government spending funded by additional borrowing outweighing growth in the size of the economy.

Public sector net debt, % of GDP



OBR forecasts: public finances

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Net borrowing, £ billion						
March 2019	47.6	40.2	37.6	35.4	33.3	..
March 2020	47.4	54.8	66.7	61.5	60.2	57.9
Net borrowing, % of GDP						
March 2019	2.2	1.8	1.6	1.5	1.3	..
March 2020	2.1	2.4	2.8	2.5	2.4	2.2
Current budget surplus, % of GDP						
March 2019	0.1	0.6	0.7	0.8	0.8	..
March 2020	0.1	0.2	0.1	0.5	0.7	0.8
Net debt, £ billion						
March 2019	1,817	1,810	1,781	1,827	1,870	..
March 2020	1,799	1,818	1,827	1,900	1,969	2,031
Net debt, % of GDP						
March 2019	81.3	78.2	74.3	73.6	72.7	..
March 2020	79.5	77.4	75.0	75.4	75.6	75.2

Note: March 2019 figures are as restated by the OBR in December 2019 to include recent ONS statistical changes

4.2 Economy

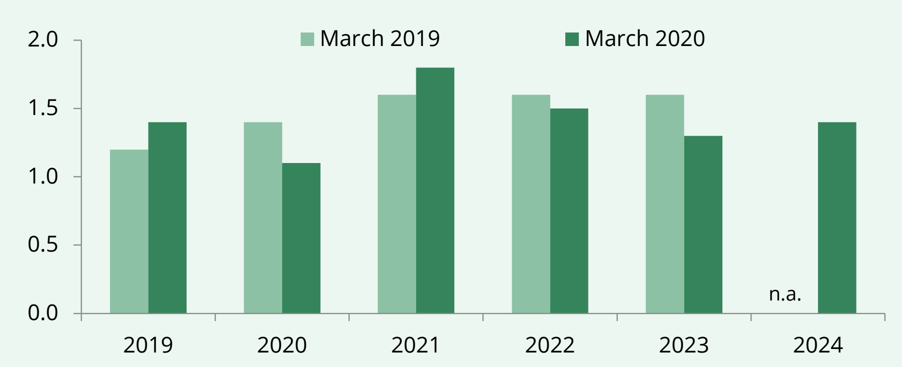
The OBR's medium-term forecasts for the economy are generally similar to those that they produced in March last year.

As mentioned earlier, the OBR's forecasts where finalised when the Coronavirus outbreak was largely concentrated in China. Since then, the virus has spread across the world, including the UK. **The potential economic impact of coronavirus is now much larger than is shown in the OBR forecasts summarised below**.

GDP

GDP growth in 2021 was forecast to be slightly higher than was forecast in March 2019, in 2022 is slightly lower and in 2023 is lower again. The Government's Budget policies have increased the GDP growth forecast in 2021 but have decreased it in 2023.

GDP growth (%)



Box 3: Brexit and the economy

The OBR have looked at the economic effect of a future free trade agreement between the UK and EU – the Government's preferred model for the future relationship. Based on a range of external estimates, they estimate that this might lead to a loss of about 4% of potential GDP over 15 years, relative to what would have happened had the current trading relationship continued.

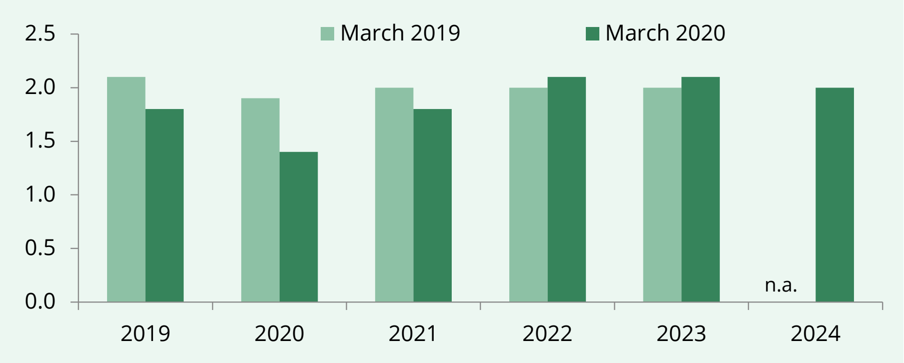
They estimate that the economic effects since the Brexit referendum have reduced potential output by about 2%, relative to what would have happened otherwise. This was largely due to weaker productivity growth, which itself is related to less business investment and the diversion of resources away from production to preparing for Brexit.

The OBR believe that about a third of the long run change in productivity due to Brexit has already happened, a third will happen within the forecast period (to 2024) and a third will happen after that.

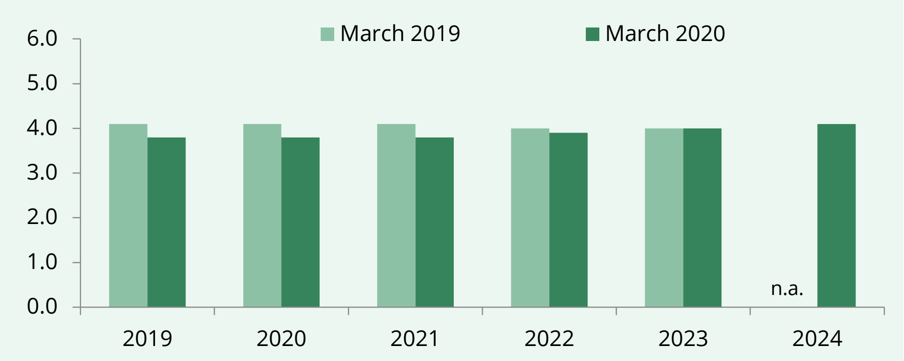
Inflation, earnings and unemployment

The forecast for CPI inflation is lower in 2020, but relatively little changed in 2021, 2022 and 2023, compared with the OBR's previous forecasts. Forecast unemployment is very similar to what it was for the same period. Forecast average earnings growth are slightly higher in 2021 and 2022 but slightly lower in 2023.

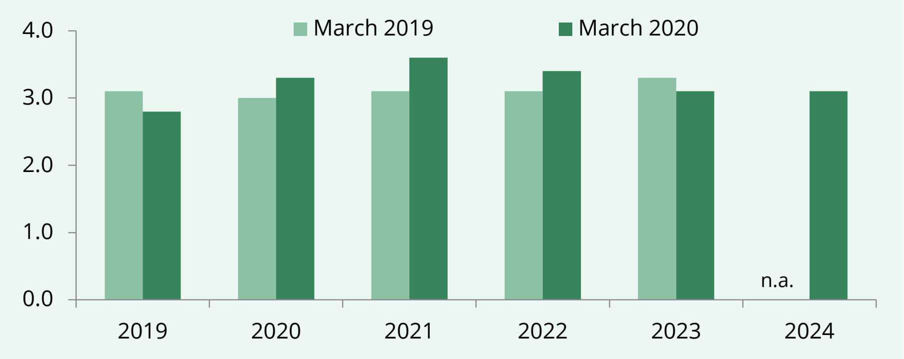
CPI inflation (%)



Unemployment rate (%)



Average earnings, annual % change (not adjusted for inflation)



OBR forecasts: economy						
	2019	**2020**	**2021**	**2022**	**2023**	**2024**
GDP growth (%)						
March 2019	1.2	1.4	1.6	1.6	1.6	..
March 2020	1.4	1.1	1.8	1.5	1.3	1.4
Productivity growth (%)						
March 2019	0.8	0.9	1.1	1.2	1.3	..
March 2020	0.0	0.9	1.2	1.2	1.1	1.2
CPI inflation (%)						
March 2019	2.1	1.9	2.0	2.0	2.0	..
March 2020	1.8	1.4	1.8	2.1	2.1	2.0
ILO unemployment rate, %						
March 2019	4.1	4.1	4.1	4.0	4.0	..
March 2020	3.8	3.8	3.8	3.9	4.0	4.1
Average earnings, % change on previous year						
March 2019	3.1	3.0	3.1	3.1	3.3	..
March 2020	2.8	3.3	3.6	3.4	3.1	3.1

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