BRIEFING PAPER

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Spring Budget 2021: A summary

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Introduction

Spring Budget 2021 was presented by the Chancellor of the Exchequer to Parliament on 3 March. Once the Chancellor sat down the Office for Budget Responsibility (OBR) published updated forecasts in its Economic and fiscal outlook.

The past year has been unlike any in living memory. The coronavirus pandemic, and the public health measures designed to slow its spread, have affected most aspects of people's lives. Across the world more than 2 million have died.

The pandemic has caused the largest peacetime shock to the world economy on record and seen governments borrowing vast sums to support their economies and tackle the virus.

The UK is just beginning to slowly emerge from the latest lockdown put in place to slow the spread of the virus.[1] The UK Government has set out a roadmap for the lifting of restrictions in England. Restrictions will begin to ease from 8 March when, among other smaller changes, children will be able to return to school. Subsequent steps will see more restrictions eased until, no earlier than 21 June, all legal limits on social contact in England can be removed.

In addition, a new UK-EU economic relationship has begun following the end of the Brexit transition period.

This is the context within which the Chancellor, Rishi Sunak, presented his Budget and the Office for Budget Responsibility published its latest set of forecasts for the economy and public finances.

1 In Scotland and Wales, some children returned to school from 22 February 2021

1. Policy announcements

1.1 Virus-related support measures

The Chancellor extended various virus-related support measures, which were due to close in March or April 2021. Some changes were made to the extended measures. Section 4 of the Library briefing Spring Budget 2021: Background briefing summarises the existing schemes.

The measures, which the OBR forecast will cost around £43 billion in 2021/22, include:

- **Coronavirus Job Retention Scheme:** extended until September 2021. From July, the government will introduce an employer contribution towards the cost of unworked hours of 10% in July, 20% in August and 20% in September, as the economy reopens.
- **Self-Employment Income Support Scheme:** two further grants to be provided. The first grant (covering February to April 2021) will be worth 80% of three months' average trading profits, paid out in a single instalment and capped at £7,500 in total. The value of the final grant (covering May to September 2021) will depend on whether an individual's turnover has fallen by more or less than 30%. As 2019/20 tax returns will be used in determining grants, some of those who couldn't receive previous SEISS grants will now be able to do so.
- **Restart grants:** in England grants will be paid of up to £6,000 per premises for non-essential retail businesses and up to £18,000 per premises for hospitality, accommodation, leisure, personal care and gym businesses.
- **Business rates relief for retail, hospitality and leisure properties:** extended to 30 June 2021. A 66% relief will follow from 1 July 2021 to 31 March 2022. The relief will be capped with the level depending on whether the property was closed on 5 January 2021. Nurseries also qualify for the relief.
- **Recovery Loan Scheme:** from 6 April 2021 the scheme will provide lenders with a guarantee of 80% on eligible loans between £25,000 and £10 million. The scheme will be open to all business, including those who have already received support under the existing COVID-19 guaranteed loan schemes, such as the Bounce Back Loans.
- **VAT reduction to 5% for the UK's tourism and hospitality sector:** extended until 30 September 2021. A 12.5% rate will then apply for the six months until 31 March 2022, when it reverts back to 20%.
- **Stamp duty land tax:** the threshold at which stamp duty isn't paid (the nil-rate threshold) will remain at £500,000 until 30 June 2021. The threshold will be reduced to £250,000 from 1 July 2021 until 30 September 2021, before returning to £125,000. Stamp duty land tax only applies in England and Northern Ireland.
- **Universal credit:** the £20 per week uplift to be extended for six months.

- **Working tax credit:** a one-off payment of £500 will be made to eligible Working Tax Credit claimants.
- **The suspension of** the assumed level of income that reduces awards for some self-employed Universal Credit claimants **(the Minimum Income Floor)** will continue until the end of July 2021. It will gradually be re-introduced from August.
- The **higher surplus earnings threshold** of £2,500 for **Universal Credit** claimants will continue until April 2022, when the threshold will revert to £300.
- £1.7 billion of support has been allocated to **vaccine rollout.**

1.2 Tax

Non-virus related tax measures included:

- **Fuel duty:** frozen in 2021/22, for the eleventh consecutive year
- **Alcohol duty:** frozen in 2021/22
- Changes to **corporation tax** include:
  - From 1 April 2021 until 31 March 2023, companies investing in qualifying new plant and machinery assets will benefit from a **130% first-year capital allowance**. This means that companies that invest in their businesses over the next two years will be able to reduce their tax bills by 130% of the cost
  - Companies can set-off trading losses against total profits of the current and previous accounting period. The **trading loss carry-back rule** will be temporarily extended from the existing one year to three years
  - From April 2023, the **main corporation tax rate will increase from 19% to 25%** on profits over £250,000. The rate for small profits under £50,000 will remain at 19%. There will be relief for businesses with profits under £250,000.
- **Income tax thresholds:** both the **income tax-free personal allowance and higher rate threshold will be frozen from April 2022 until April 2026**. The personal allowance (the level of income below which people don't pay income tax) will be frozen at £12,570. The higher rate threshold (the point at which individuals start paying the higher rate of income tax) will be frozen at £50,270.
- **VAT threshold:** The VAT registration and deregistration thresholds will remain at their current level of £85,000 for two years from 1 April 2022
- **Inheritance tax nil-rate bands:** the amount at which an estate has no inheritance tax to pay will be frozen at existing levels until April 2026. The nil-rate band will continue at £325,000, the residence nil-rate band will continue at £175,000.

- **Pensions lifetime allowance:** frozen at existing level (£1,073,100) until April 2026. People with pension pots above the lifetime allowance pay tax on them.

1.3 Spending

Non-virus related spending measures included:

- **Traineeships:** government will provide additional funding for work placements and training for 16-24 year olds in the 2021/22 academic year.
- **Help to grow:** UK-wide schemes will provide support to SMEs with management and adopting software designed to enhance productivity.
- **Devolved administrations:** Scotland will receive £1.2 billion, Wales £0.7 billion and Northern Ireland £0.4 billion in 2021/22, through the Barnett formula, as a result of spending announcements in the Budget.

1.4 Other announcements

- The **levelling-up fund** prospectus was launched. The fund will invest in local infrastructure projects, such as road schemes, bus lanes and town centres. Local areas will be able to bid for funding.
- Further details about the **UK infrastructure bank** were given. The Bank will be based in Leeds and will be able to deploy £12 billion of equity and debt capital and be able to issue up to £10 billion of guarantees.
- **Freeports** will be established in East Midlands Airport, Felixstowe & Harwich, Humber, Liverpool City Region, Plymouth and South Devon, Solent, Teesside and Thames. They will begin operating from late 2021, if their governance arrangements and business cases are agreed"
- **An economic campus will be established in Darlington**, which will include economic departments such as the Department for Business, Energy & Industrial Strategy, the Department International Trade and the Ministry for Housing, Communities and Local Government.
- **Mortgage guarantee scheme** introduced in April 2021. A guarantee will be given to lenders across the UK who offer mortgages to people with a deposit of just 5% on homes with a value of up to £600,000.
- The Government's **wider economic plan** for investment in skills, infrastructure and innovation was set out in 'Build Back Better: our plan for growth'.

2. Public spending

2.1 Spending on Covid-19 is lower and higher

The previous set of spending forecasts, released in November 2020 alongside the Spending Review, said that the Government's spending on measures associated with the Covid-19 pandemic would be around £280 billion in 2020/21. This forecast was made before the lockdown that began in January 2021 and the extra support measures that came with it.

The new forecasts saw:

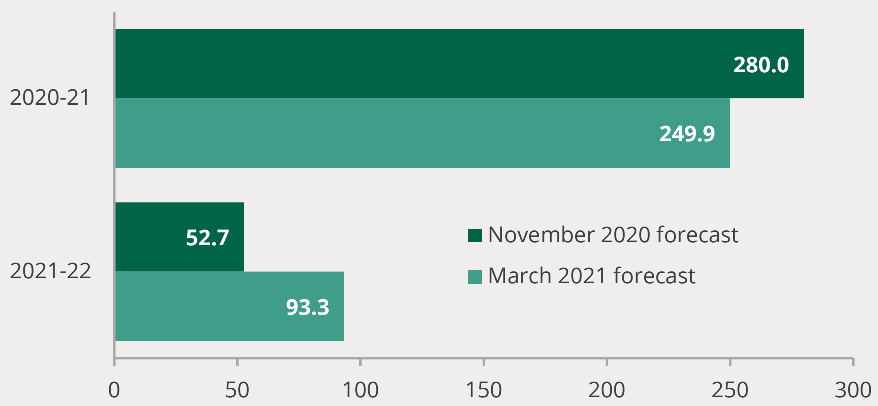
- Revised estimates of the amount to be spent on schemes that have previously been announced – the £280 billion estimate for 2020/21 has now been substantially revised down, to £247 billion. This is because several schemes in 2020/21 cost less than initially expected – the OBR reports that health spending, the Coronavirus Job Retention Scheme (CJRS), the Self-Employment Income Support Scheme (SEISS) and Government-backed loan schemes all cost less than the earlier forecasts suggested.
- The inclusion of spending relating to new announcements, for example the extension of the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme. The new announcements add around £3 billion in 2020/21 and £43 billion in 2021/22.

Spending on these measures from 2022/23 onwards is forecast to be relatively small.

In total the OBR estimate that virus-related support measures will cost £344 billion over this and the coming years.

Spending on virus-related support measures

£ billions



Note: Forecast virus-related spending also continues into later years, but the amounts are much smaller (no more than £2 billion in any year).

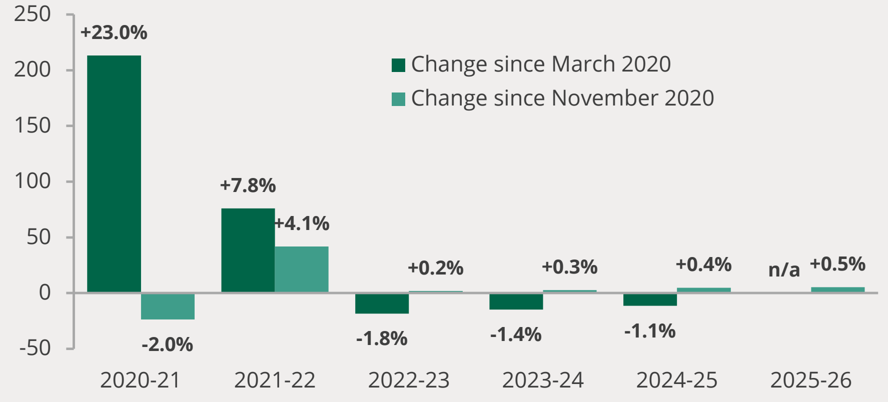
Source: OBR, Economic and fiscal outlook, March 2021, tables A.1 & A.5

2.2 Longer term spending totals have barely changed

The emphasis on Covid-19 spending means that the overall changes in total spending in this Budget are dominated by the first two years of the forecast, as can be seen in the chart below.

Changes in total spending in the March 2021 Budget

£ billions, changes in total managed expenditure



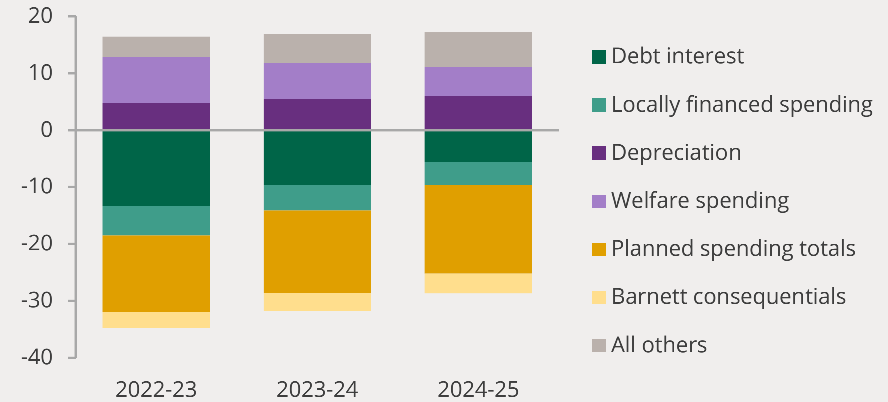
Source: OBR, [Economic and fiscal outlook, March 2021](), table 3.13

However, looking further ahead, spending in the years when the effects of Covid-19 are expected to have receded is forecast to be very similar to last year's plans. In every year from 2022/23 to 2025/26, total spending plans differ by less than 2% from those in the March 2020 Budget.

This stability is even more apparent when we break down where the changes in spending have come from. Table 3.13 in the OBR's Economic and fiscal outlook shows that some of the largest contributions to changes in spending come from areas where central government has very little direct control, such as debt interest (which is cheaper due to lower interest rates and greater quantitative easing).

Changes to medium-term spending forecasts

£ billions, difference from March 2020 forecast



Source: OBR, [Economic and fiscal outlook, March 2021](), table 3.13

The changes in policy that have been made – those listed as "planned spending totals" in the chart above – currently do not have much detail. These are planned overall spending cuts, but the allocation of these cuts between departments has not yet been made. It is likely that they will fall on departments whose budgets have not been protected, such as health, schools and overseas aid (even if it remains at 0.5% of GNI, the aid budget is expected to grow every year along with the economy).

2.3 Long-term planning is yet to arrive

At the March 2020 Budget, the Chancellor set a spending 'envelope' for the 2020 Spending Review, giving total spending limits for the next three years. This was later abandoned due to the economic uncertainty caused by the Covid-19 pandemic, with the November 2020 Spending Review covering only 2021/22.

This means that departments do not know how much money they will have available to spend beyond March 2022. The current Budget announced that there will be another Spending Review this year, and that the spending envelopes will be set out "in due course". However, there were no further details, including any idea of when it will be launched or how many years it will cover.

Similarly, there was no mention of the promised investment framework for the UK Shared Prosperity Fund (which will replace EU structural funding), although this did appear in the prospectus for the UK Community Renewal Fund which was published alongside the Budget. The prospectus says that the framework will be published "later this year" and that the funding profile will be published at the next Spending Review, with the Shared Prosperity Fund itself launching in 2022.

3. OBR forecasts

The Office for Budget Responsibility (OBR) published new forecasts for the economy and public finances alongside the Budget.[2] The OBR's previous forecasts were published in November 2020.[3]

This section provides a summary of the new forecasts for key economic indicators, including those for the public finances.

The uncertain nature of the pandemic's path means that there is a great deal of uncertainty over the economic outlook and therefore the OBR's forecasts. In its previous November 2020 forecasts, the OBR provided 'upside' and 'downside' scenarios in addition to its central forecast. In its new forecasts, the OBR has updated its central forecasts, but not updated its 'upside' and 'downside' forecasts.

In this briefing, we focus on the OBR's central forecasts, but please bear in mind the large degree of uncertainty surrounding them.

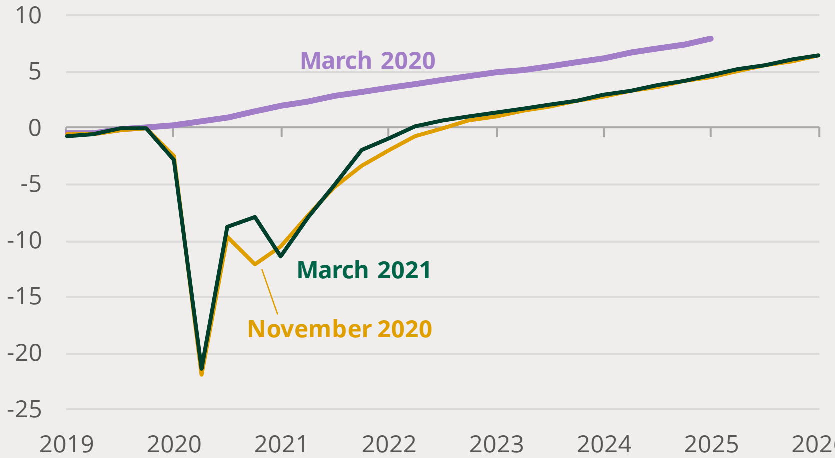
3.1 Economy

Some key highlights from the OBR's forecasts for the economy:

- Compared with its previous November 2020 forecasts, the **recovery is delayed** due to the early 2021 lockdown. The OBR forecasts GDP to fall by 3.8% in Q1 2021.
- Once the economy reopens, the economy is expected to **grow more strongly** than the OBR previously anticipated. As a result, the OBR forecasts GDP will return to its pre-pandemic level in Q2 2022, six months sooner than it expected in November.
- The OBR's latest **forecast for the GDP level** in Q1 2026 is unchanged from its November forecast (6.5% above its pre-pandemic level of Q4 2019).

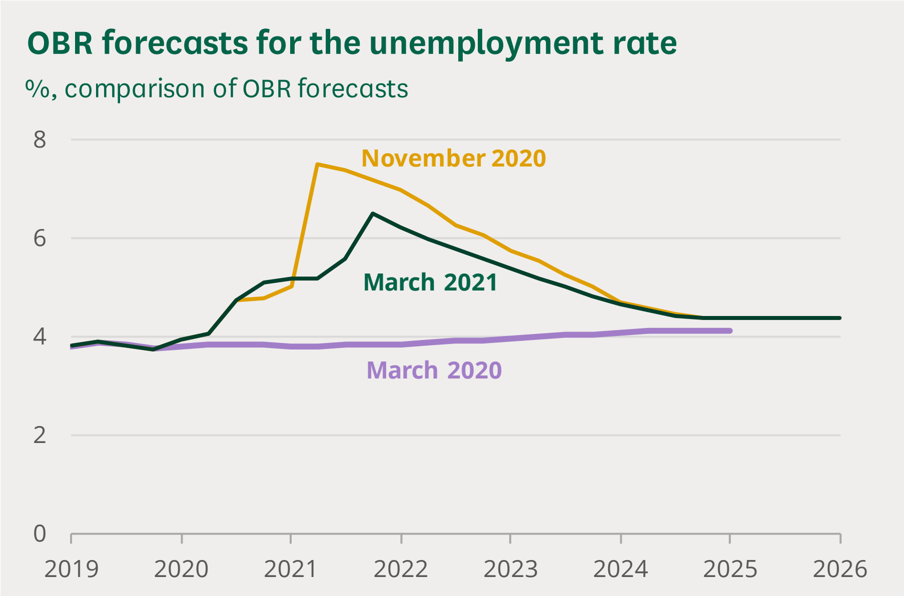
OBR forecasts for level of GDP

% change with GDP level of Q4 2019, comparison of OBR forecasts



2 OBR, Economic and fiscal outlook, 3 March 2021
3 OBR, Economic and fiscal outlook, 25 November 2020

- The OBR expects **consumer spending** to grow strongly once the economy reopens. As this is the largest component of economic growth, this will help to underpin the recovery. Pent-up demand for goods and services that couldn't be purchased during the lockdown, plus the spending of some of the additional savings that households have built up in the pandemic, will help boost the economy.
- **Business investment** is forecast to grow strongly in 2022 (+16.6%), partly due to a post-pandemic rebound and partly due to companies bringing forward investment to take advantage of a temporary increase in certain capital allowances announced in the Budget. By early 2025, however, business investment is forecast by the OBR to be 8% lower compared with its pre-pandemic March 2020 forecast.
- The OBR forecasts **unemployment** to continue to rise from its rate of 5.1% at the end of 2020. It now expects it to peak at 6.5% in Q4 2021. This is lower than the peak of 7.5% forecast in November. The OBR said the extension of the Government's job support schemes prevented a larger increase in unemployment.



- The OBR has not changed its expectations of the long-term impact of **Brexit**. It still assumes there will be a 4% reduction in economic output over the long-term as a result of Brexit. In the short-term, the OBR forecasts disruption to UK-EU trade in early 2021 to have reduce GDP by 0.5%-points in Q1 2021.
- The OBR has left unchanged its estimate of the **long-term impact of the pandemic on economic output**. Its central assumption is that GDP will be 3% lower in the long-term as a result of "scarring" from the pandemic.

OBR forecasts: economy

Central forecasts

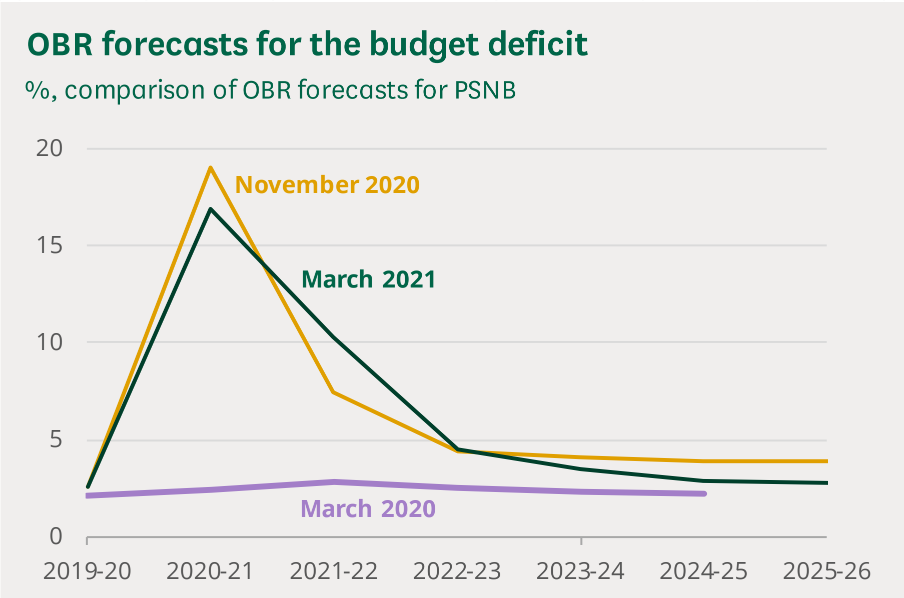
	2020	2021	2022	2023	2024	2025
GDP growth, %						
November 2020	-11.3	5.5	6.6	2.3	1.7	1.8
March 2021	-9.9	4.0	7.3	1.7	1.6	1.7
GDP level, 2019=100						
November 2020	88.7	93.6	99.7	102.0	103.7	105.6
March 2021	90.1	93.7	100.5	102.3	103.9	105.7
Business investment growth, %						
November 2020	-18.1	1.2	13.7	9.7	6.2	4.6
March 2021	-10.7	-2.2	16.6	3.0	-2.3	5.1
ILO unemployment rate, annual ave (%)						
November 2020	4.4	6.8	6.5	5.4	4.5	4.4
March 2021	4.5	5.6	5.9	5.1	4.5	4.4
CPI annual inflation, %						
November 2020	0.8	1.2	1.6	1.7	1.9	2.0
March 2021	0.9	1.5	1.8	1.9	1.9	2.0
Productivity growth, %						
November 2020	0.9	0.1	0.3	1.1	1.0	1.4
March 2021	0.5	-0.6	1.2	1.1	1.2	1.6
Average earnings, % change on previous year						
November 2020	1.2	2.1	2.0	2.4	3.0	3.5
March 2021	1.1	1.9	2.7	2.2	2.8	3.5

Source: OBR, EFO, Nov 2020 and Mar 2021, central scenarios

3.2 Public finances

Some key highlights from the OBR's forecasts for the public finances:

- Government borrowing – the **budget deficit** – is forecast to be £355 billion (16.9% of GDP) in 2020/21, as a result of the pandemic's effect on the economy and cost of the Government's economic support measures. This is, however, lower than the OBR's November forecast of £394 billion (19.0% of GDP).
- The OBR estimate the **total cost of spending related to the pandemic is £344 billion**. This Budget adds £3 billion in virus-related spending in 2020/21 and a further £43 billion in 2021/22 (including the extension of the employment support schemes). Previous estimates of spending in 2020/21 have been revised down.
- This additional spending leads to the **budget deficit being higher in 2021/22,** at 10.3% of GDP, than the OBR's November forecast of 7.4%.
- From 2023/24, tax rises and lower-than-previously forecast public spending leads to **lower deficits**. The OBR forecasts the budget deficit to be 2.8% of GDP in 2025/26, compared to a deficit of 3.9% in its previous November forecast.

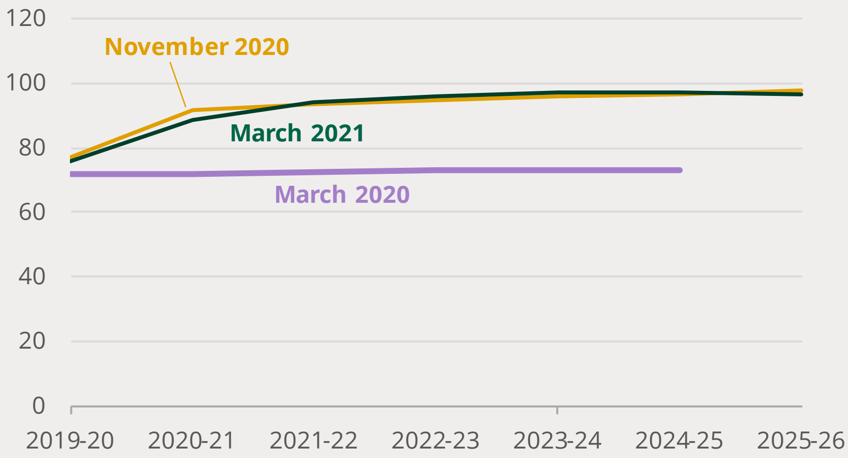


- The Chancellor announced an increase in the corporation tax rate from 2023/24 and the freezing of income tax thresholds from 2022/23. This will result in higher tax revenues. The OBR forecasts that **tax revenues** as proportion of annual economic output (GDP) will in 2025/26 rise to its highest level since 1969/70.
- Due to the large budget deficit, **public sector net debt** has risen since the start of the pandemic. As a proportion of annual economic output (GDP), the OBR forecasts it will increase from 84% in 2019/20 to 100% in 2020/21. It continues to climb to 110% of GDP in 2023/24 before falling to 104% in 2025/26 (the last year for which the OBR provides forecasts).

- If one excludes the impact of the Bank of England's programme of government bond purchases (quantitative easing), underlying net debt follows a similar pattern. However, debt levels stabilise rather than fall after 2023/24.

OBR forecasts for underlying net debt

% of GDP, comparison of OBR forecasts for PSND excl. Bank of England



OBR forecasts: public finances

Central forecasts

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Net borrowing (PSNB), £ billion						
November 2020	393.5	164.2	104.6	100.4	99.6	101.8
March 2021	354.6	233.9	106.9	85.3	74.4	73.7
Net borrowing (PSNB), % of GDP						
November 2020	19.0	7.4	4.4	4.1	3.9	3.9
March 2021	16.9	10.3	4.5	3.5	2.9	2.8
Net debt (PSND), £ billion						
November 2020	2,274	2,478	2,602	2,721	2,714	2,817
March 2021	2,198	2,503	2,631	2,747	2,761	2,804
Net debt (PSND), % of GDP						
November 2020	105.2	108.0	108.6	109.4	105.0	104.7
March 2021	100.2	107.4	109.0	109.7	106.2	103.8
Net debt (PSND) excluding Bank of England, % of GDP						
November 2020	91.9	93.7	94.9	96.2	96.7	97.5
March 2021	88.8	93.8	96.0	97.1	97.0	96.8

Source: OBR, EFO, Nov 2020 and Mar 2021, central scenarios

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