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NOW FOR THE HARD BIT

SUNAK EXTENDS SAFETY NET BUT WARNS COUNTRY THAT STEEP BILL IS ON THE WAY

Throughout the upheaval of the last 12 months, the Chancellor told the House this afternoon, one thing has remained constant – the Government's support for UK businesses and citizens. Fiscal support during the crisis would eventually exceed £400 billion, he said. While at pains to demonstrate that there will be no sudden withdrawal of state backing for the economy, Rishi Sunak was clear: the debt will eventually need to be repaid.

Despite the dire figures we have become accustomed to (GDP shrank by an unprecedented 10% last year), the independent forecasts from the OBR were surprisingly positive: growth will return this year to the tune of 4%, rising to 7.3% before returning to more typical levels. But the damage done, Sunak stressed, was "acute": in five years' time the economy will still be 3% smaller than it would have been had the crisis not occurred.

The Chancellor announced a three-part plan to guide the UK's recovery from the pandemic. There were no huge surprises – the Budget had been so heavily pre-briefed to the media that the Speaker, Sir Lindsay Hoyle, chastised Sunak on Sky News for failing to reserve key policy announcements for the floor of the House. The three parts were, in essence, 1) continued economic support through the crisis, 2) replenishing the public finances, and 3) encouraging growth and investment. Brexit, having dominated Budgets for so many years, was not even mentioned.

Part 1 revealed that various forms of financial support – the furlough scheme, support for the self-employed, the Universal Credit up-lift – will continue until the end of September, far beyond the point at which the Government hopes to have lifted all Covid restrictions. The highly cautious approach adopted by the Prime Minister of late appears to have fed into Number 11's thinking.

Part 2 explained that all this support would need to be paid for. It would be "the work of many governments over many decades" to do so, Sunak said. But he would make a start by hiking corporation tax to 25% in 2023 and freezing income tax thresholds until 2026 in a move that will raise billions for the Exchequer. To sweeten the pill for unhappy Tory backbenchers, duties on alcohol and fuel will also be frozen.

Finally, there was funding announced to help businesses grow and digitise, a new Leeds-based National Infrastructure Bank, at least £15 billion in new green bonds and investment in eight new freeports – all designed to show the UK is open for business as it looks to grow its way to recovery.

Having directly bankrolled the wages of millions of people over the last year, Sunak has an unusually high profile among the general public. In a break with tradition, he will address the nation this evening via a press conference, as part of his pledge to be open and honest about what the UK's economic situation means for taxpayers today and in the future. They will ultimately decide if he succeeded in doing "whatever it takes" to protect the economy – and if it has been worth the price.

KEY ANNOUNCEMENTS

Furlough scheme: Extended until the end of September, with business contributions rising from 1st July.

Corporation tax: Corporation tax will increase from the current 19% to 25% in April 2023, with tapered rates to protect smaller businesses.

Investment: A new 130% super-deduction tax incentive for businesses investing in new plant and machinery between 2021-23.

Mortgage guarantee: The Government will support homebuyers to purchase properties up to £600,000 with a 5% mortgage.

Freeports: New freeports will be established in eight locations around the country, including Liverpool, Teeside and Thames.

REACTION

Paul Johnson
@PJTheEconomist
Director, Institute for Fiscal Studies

That's a huge increase in rate of corporation tax. Right at top end of expectations. Extraordinary reversal of longstanding policy. Risky.

1:05 PM · 3 Mar 2021

Paul Waugh
@paulwaugh
Political Editor, HuffPost UK

This feels like a real pork barrel Budget, lots of cash aimed at buying votes in key Red Wall seats (freeports esp, towns deals), plus attempts to buy off independence demands in Scotland.

1:23 PM · 3 Mar 2021

Angela Rayner
@AngelaRayner
Deputy Leader of the Labour Party

Have I missed the bit where the Chancellor announced a pay rise for health and social care workers? I suppose last year's clapping will have to pay this year's bills.

1:43 PM · 3 Mar 2021

Tony Danker
@tonydanker
Director, CBI

#BudgetSpeech2021 has a clear eye to the future. @RishiSunak has taken a welcome, broad view on how to stimulate growth. The super deduction should be a real catalyst for firms to greenlight investment decisions. The boldness of the Chancellor on this measure is to be admired.

2:12 PM · 3 Mar 2021

POLITICAL ANALYSIS: THE PANDEMIC CHANCELLOR

In normal times Rishi Sunak might still be Chief Secretary to the Treasury, or perhaps Secretary of State for something small to middling. But these aren't normal times, and this isn't a normal government.

Sunak is the pandemic Chancellor. In post just six weeks when Britain entered lockdown. He has been writing life support cheques ever since.

Today Sunak began the unenviable task of outlining the cost of that borrowing, and not whether all of us have to pay for it, but when and how we pay for it.

The last time there was no money – in the wake of the 2008 financial crisis – the Tories inherited the problem from Labour and chose to pay down the deficit through austerity. That isn't an option this time around.

For fiscally conservative Tories (the Chancellor likes to tell us he's one too) – small state, pro-business, pro-growth, lower taxation, economic credibility – all this spending and borrowing is tricky territory.

What we got today was a product of that reality – part staging post part delicate political balancing act. The Chancellor knows elections are generally won by the party that is seen as more centrist and more economically competent.

This was his outline of a roadmap toward that long term fiscal credibility. How we transition from pandemic to recovery. How we have to start to pay for that spending safety net. And how we put in place the building blocks of growth.

Sunak was never likely to switch off the life support. Borrowing is cheap after all. And cutting schemes that have helped to insulate against even greater job losses would have been economic and political folly. What we got then, was continuity.

So, stamp duty and business rates holidays, the increase to universal credit, help for the self-employed, it all stays. And on furlough the Chancellor went even further than most analysts predicted, extending it by a further five months, albeit with tapering attached.

All of that means then that the protective blanket of borrowing will be with us a little longer. But, with the vaccine working, and the pandemic seemingly in retreat, the end is in sight.

What then of the difficult parts? Paying for public spending. And building an economic future for the UK.

For a party with an 80-seat majority this Prime Minister and his Chancellor often find themselves more ill at ease with their backbenchers than they do with the official opposition.

The Covid Recovery Group want the Prime Minister to free the economy and loosen the lockdown as quickly as possible. Recalcitrant red wall Tories – the self-styled Northern Research Group – want manifesto promises to level up and build back better honoured in full. Inevitably that will have to be paid for.

All this has led to an instinctive clash of ideologies across the Tory benches. Some have been saying no to the Chancellor for weeks. No to new tax rises, or anything that threatens to choke off recovery in the post pandemic, post Brexit era. Others favoured tax cuts for hard working SMEs, whilst paying for it by levying taxes on big business.

No wonder most of the give-aways were announced before today. Possible tax rises were heavily and deliberately pitch-rolled, without of course ever appearing concrete. Sunak's great mentor William Hague was even wheeled out to warn of pain ahead and the necessity that taxpayers and businesses would have to shoulder some of the burden.

The Chancellor knows however that recent polling suggests the public aren't there yet – preferring more public borrowing over tax rises or spending cuts. And, armed with strong post pandemic growth forecasts – over 7% next year – he clearly feels he has some wiggle room.

That's why having marched everyone to the top of the hill, the pandemic Chancellor today sided in the main with his back benchers. Personal tax thresholds will face future freezes, and corporation tax on company profits for big business will rise to 25% in April 2023. But the majority of tax rises were mostly for another day.

Eventually Sunak will need to decide on the exact balance between taxation, growth, and spending. Today we got two things. A final mountain of cash to see us through the embers of the pandemic. And a glimpse of the building blocks of a brighter future. Levelling up cash. Freeports. A tax super-deduction scheme for investors. And green infrastructure investment.

What we didn't get was the detail that pays for all that. And that's the point. The pain is coming, just not quite yet.

Will Walden is Edelman's senior counsel for strategic communications across EMEA. A former political journalist he was Boris Johnson's spokesman, communications director, and chief advisor for many years.

LABOUR'S TAKE

Labour Leader Keir Starmer said that this Budget needed to rebuild the foundations of the economy. Instead, he argued, it was simply a "quick fix" which did no more than "paper over the cracks". His speech attacked the Government for its poor response to the pandemic, which he pointed out had left Britain facing the worst economic crisis of any major economy, and accused the Tories of "a decade of neglect".

He highlighted in particular the lack of any mention of social care in the Chancellor's speech, or a "credible" plan to tackle unemployment or inequality in the country. He repeatedly called out what he said was a failure to address the long-term challenges facing the country, citing the temporary Universal Credit up-lift as an example; Labour, he insisted, would make the rise permanent until a better welfare system is in place.

Labour's position on tax has come under intense scrutiny in recent weeks, and Starmer attempted to tackle the issue head-on, saying that although he believed corporation tax should go up in the long-term, taxes decisions should be made based on "the economic cycle, not the electoral cycle" – referring to widespread reports that Sunak told Conservative MPs he wants to raise taxes now in order to lower them again ahead of the next election.

WHAT'S COMING DOWN THE LINE

- **23rd March – Tax consultations:** The Government will publish a number of tax-related consultations and calls for evidence.
- **6th May – Local elections:** Local elections take place in England, with parliamentary elections in Scotland and Wales.
- **May – Queen's Speech:** Legislation for the next parliamentary session is set to be announced in mid-May.
- **Autumn – Business rates:** The Government will publish its final report following the fundamental review of business rates last year.
- **Autumn – Budget 2.0?** – there is speculation that a second Budget will take place in the Autumn when the pandemic has receded.

ADVOCACY AND PUBLIC AFFAIRS

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ANALYSIS FROM

Luciana Berger
Managing Director,
Advocacy and Public Affairs
Former MP and Shadow
Cabinet Minister

Will Walden
Edelman EMEA senior
counsel for strategic
communications
Former Director of
Communications and chief
counsel to Boris Johnson

Emily Richards
Account Director
Former Head of Briefings
for the Labour Party

Elliot Langley
Senior Account Manager

CONTACT

Luciana Berger
luciana.berger@edelman.com