



Research briefing

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The 2020 Budget

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Introduction

The 2020 Budget was presented in the face of a rapidly evolving awareness of the likely economic and social impact of the global Coronavirus outbreak.

Headline announcements focused on relatively short-term measures to mitigate this impact, but the budget also contained significant developments of policy plans set out in the Conservative Party manifesto and election campaign.

This briefing focuses on elements likely to be of particular interest to Prospect and Bectu sectors and members.

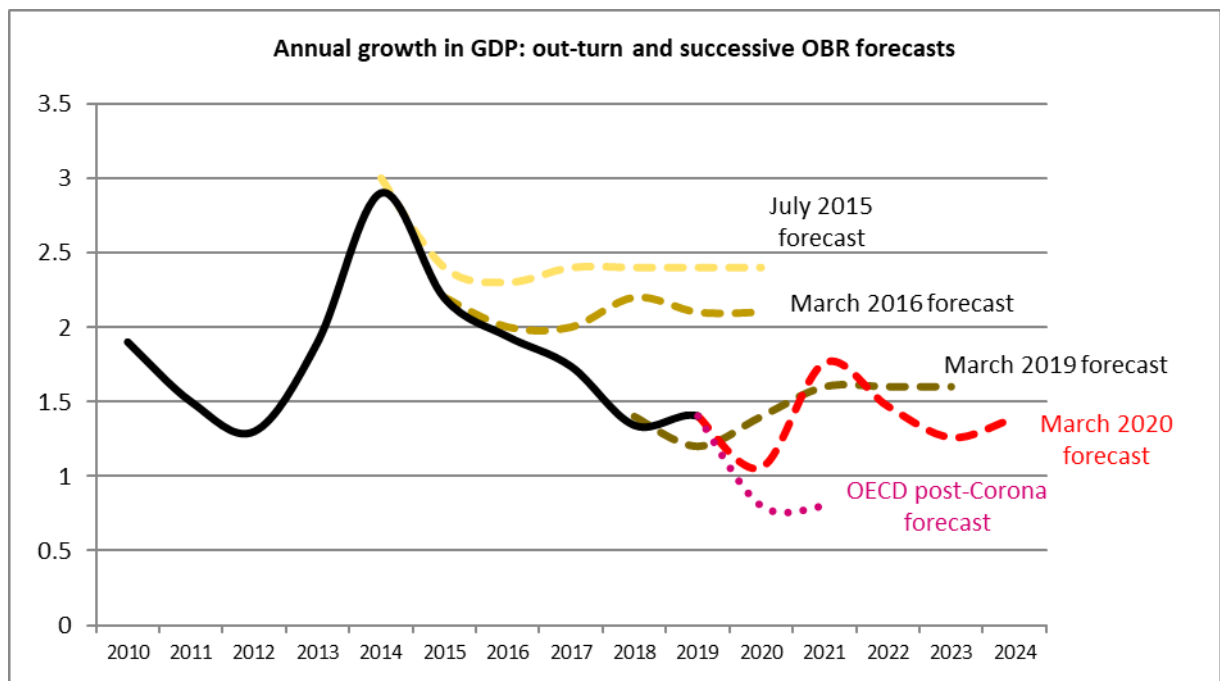
Economic outlook

The official forecasts accompanying the Budget were completed before the scale of the Coronavirus outbreak and its likely economic impacts became clear.

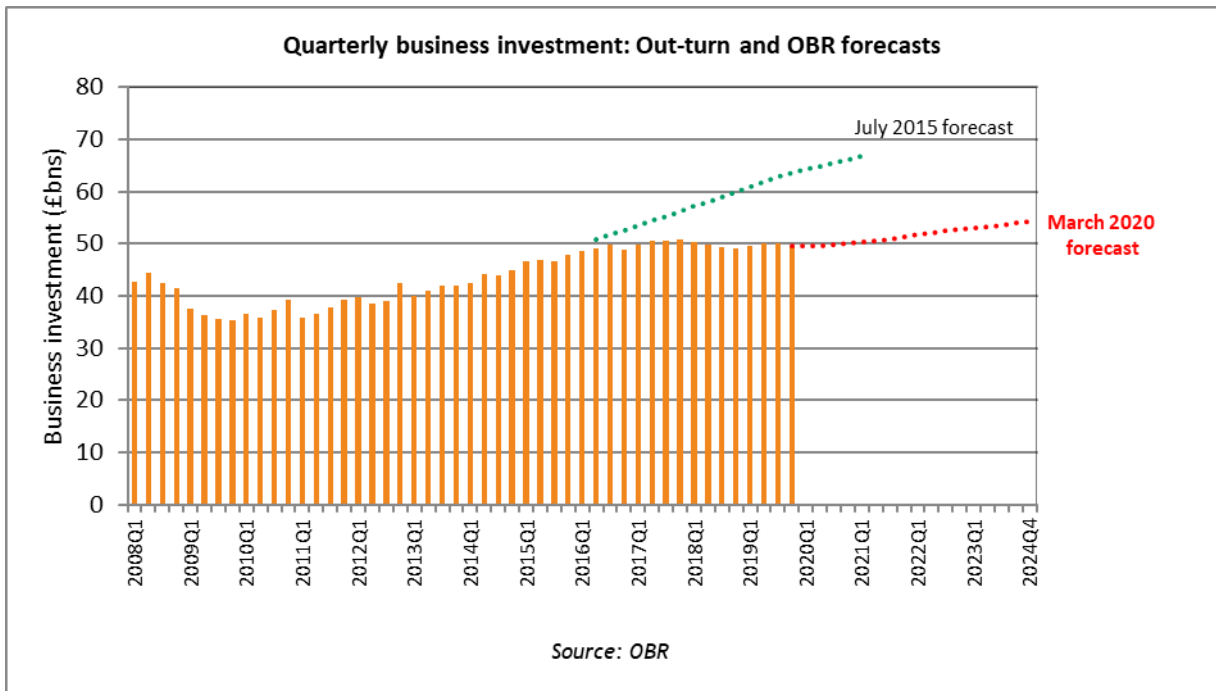
Nevertheless they provide an important insight into the OBR's assessment of the economy's strength going into this turbulent period, and the underlying trajectories that it might be expected to return to if the disruption proves temporary.

This suggests that, despite the Chancellor's assurance that "as we enter a period of challenge, we start from a position of strength", the OBR was already forecasting a period of very modest growth compared to what was expected a few years ago.

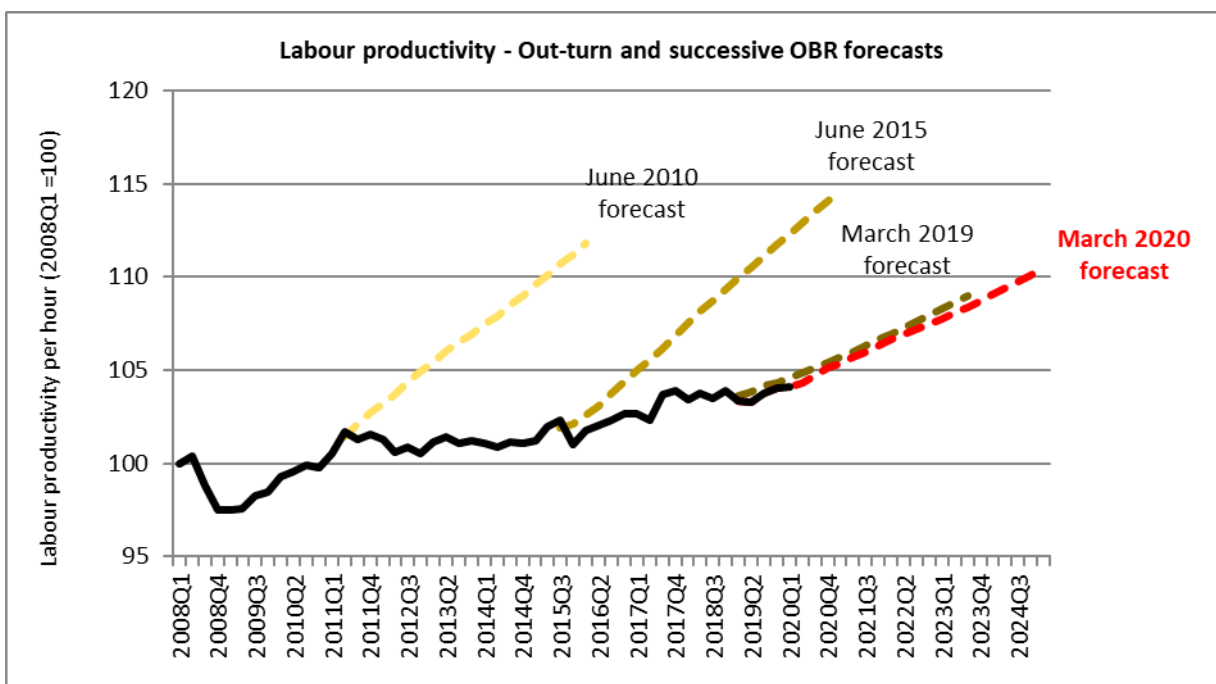
A more up-to-date forecast for the UK economy issued by the OECD takes the expected impact of the Coronavirus into account, and puts growth at less than 1% both in 2020 and 2021.



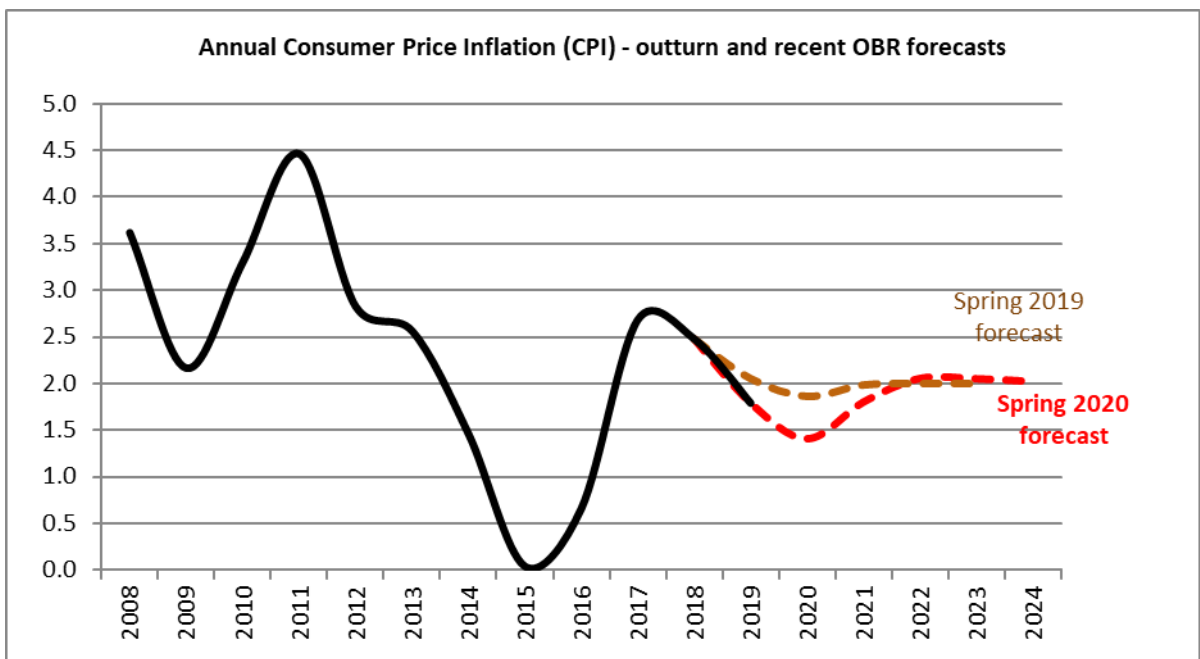
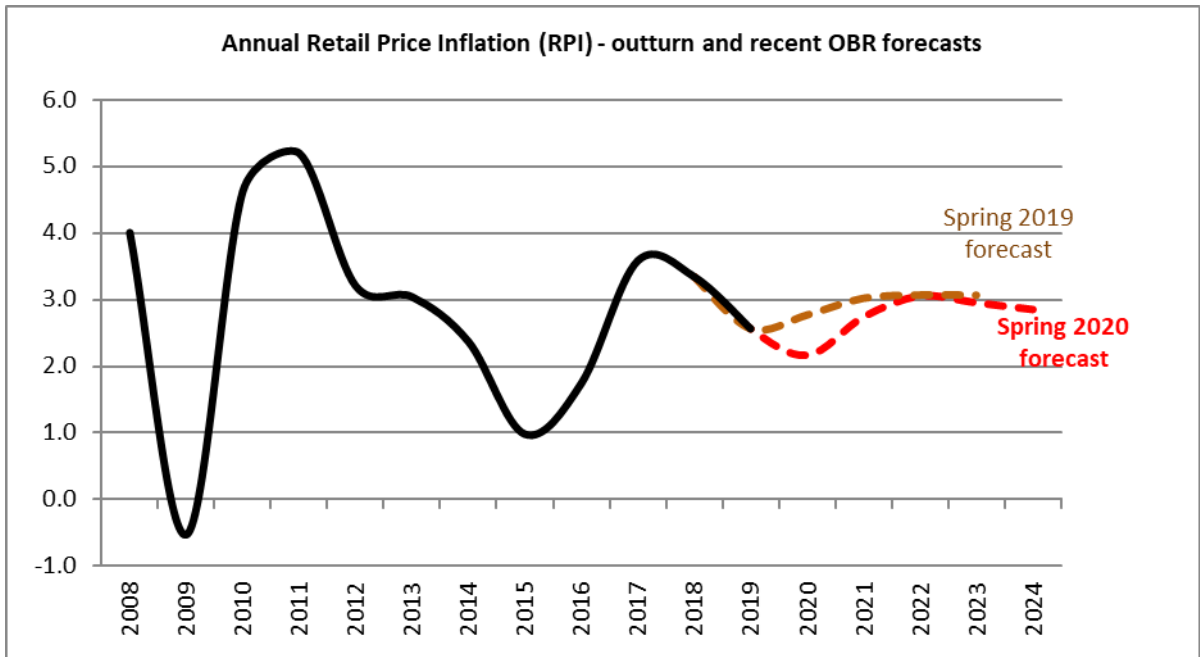
A key factor behind this decline in forecast growth is the stagnation of business investment that has been witnessed for some years now and that the OBR does not expect to recover in the foreseeable future.



This fall off in private sector capital spending has an immediate negative impact on growth as well as contributing to an ongoing productivity slump. The OBR again revised down its productivity forecast for the years ahead.



RPI and CPI inflation forecasts have been revised down for 2020 and 2021, and are then expected to return to 3% and 2% respectively.



Freelancers

The Chancellor announced a package of measures to help small businesses and the self-employed through the Covid-19 crisis. This included making it slightly easier for freelancers and the self-employed to access the benefits system, but this is less than Statutory Sick Pay and remains an incredibly complicated system to navigate.

Responding to the Budget Prospect General Secretary Mike Clancy said:

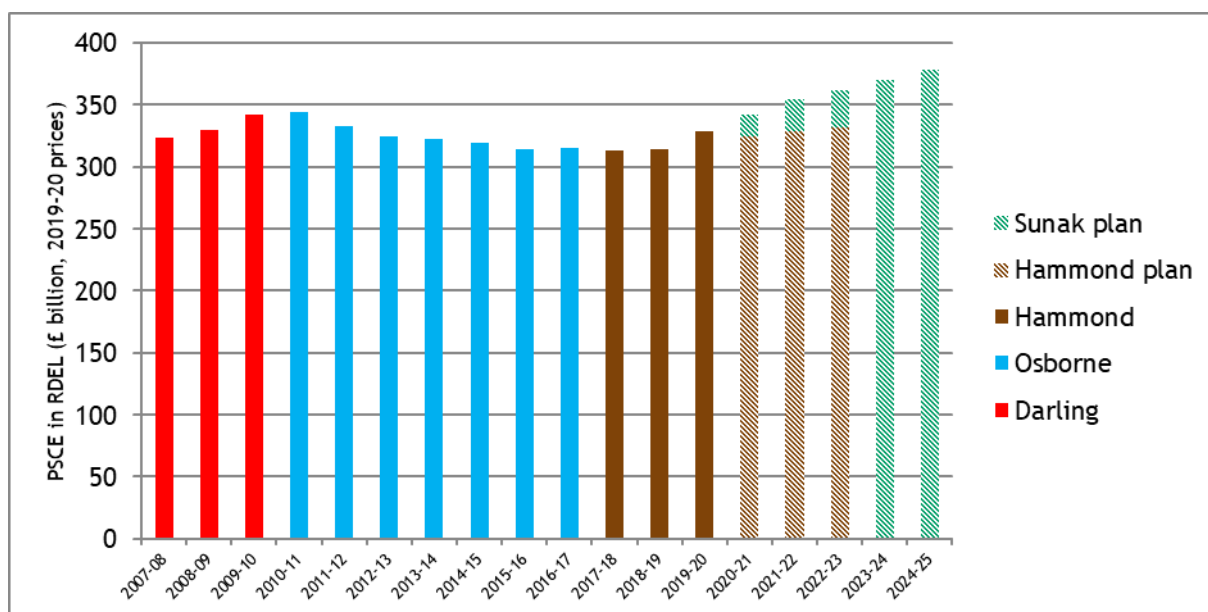
“The chancellor’s measures for freelancers, removing the income floor and the need to attend a job centre interview, are welcome but using universal credit to deliver this help is simply not up to the scale of the challenge. It seems that if you are an employee you get support, if you are a business you get support, but if you are a freelancer you get left behind.”¹

The Government also announced it would:

- “improve access to finance and credit for self-employed people, by extending funding for the Start-Up Loans programme as above and by exploring how to improve the guidance available for self-employed people applying for a mortgage”
- HMRC will launch new interactive guidance in summer 2020 which will make it easier for self-employed taxpayers to navigate the tax system
- “the government will consider how to provide appropriate support to self-employed parents so that they can continue to run their businesses, as part of its wider review of Parental Pay and Leave.”

Public services

The Chancellor set out an “envelope” for the forthcoming Spending Review that implies significantly larger increases in Departmental current budgets than had been pencilled in by Phillip Hammond or indeed by Sajiv Javid.



Exactly how this additional money is distributed among departments, agencies and services will be determined by the Spending Review and announced in the autumn. However the Government has already made commitments around spending in “protected” areas – notably the NHS,

¹ <https://www.independent.co.uk/news/uk/politics/budget-2020-coronavirus-sick-pay-self-employed-rishi-sunak-speech-treasury-a9394316.html>

education, defence and international development – which means that for the rest of the public sector this settlement may not feel so generous.

According to analysis by the Resolution Foundation:

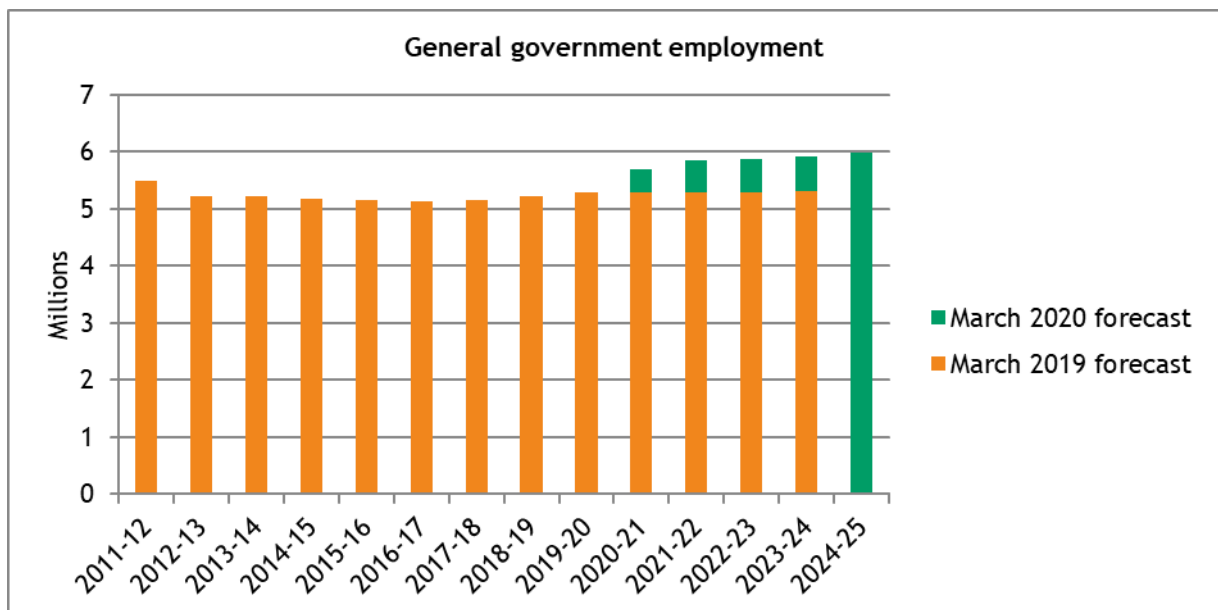
“austerity will continue for many departments, with spending increases only sufficient to reverse around a quarter of the real cuts per capita to unprotected ones (outside health, defence and international development) since 2010”²

The IFS warned:

“Outside of health and a few other protected areas it looks like little will be available to increase spending... Importantly, while austerity is clearly at an end in the sense that spending is rising, spending levels in many areas are set to remain well below 2010 levels for a long time to come. Expectations may be disappointed”.

There was no specific announcement in the budget around public sector pay. A new policy may be set in the autumn spending review, or just implicit in the settlements that departments and arms-length bodies receive.

The OBR expects the spending increases to entail around 500,000 additional public sector jobs over the next five years. Most, if not all, of these are likely to be in the NHS and other “protected” services.



² <https://www.resolutionfoundation.org/app/uploads/2020/03/Spring-Budget-2020-reaction.pdf>

Announcements and developments relevant to key sectors

Energy

Budget announcements included:

- A promise to “at least double” the size of the Energy Innovation Programme.
- a CCS Infrastructure Fund to establish CCS in at least two UK sites, one by the mid-2020s, a second by 2030 – and a promise that “using consumer subsidies, the government will also support the construction of the UK’s first CCS power plant”
- a new support scheme for biomethane, funded by a Green Gas Levy to “accelerate the greening of the gas grid

In response Prospect has criticised the lack of announcements on funding new low carbon nuclear energy.³

Environment and Food

Budget announcements included:

- a Nature for Climate Fund will invest £640 million in tree planting and peatland restoration in England, “increasing the rate of tree planting by over 600%”
- a Nature Recovery Network Fund, which will “partner with businesses and local communities to protect, restore and support existing habitats and wildlife”
- a Natural Environment Impact Fund “to help prepare green projects that could be suitable for commercial investment in order to encourage private sector support for environmental restoration.”

In response to flood risk, announcements included:

- £5.2 billion of investment in flood and coastal defences over six years – which it said was double the scale of the previous period
- £200 million over the next six years for a place-based resilience programme. This includes “The figure includes an ‘immediate’ injection of £120m to the Environment Agency to repair storm damage over the winter months.”⁴
- 39 million for the Environment Agency’s network of water supply and water navigation assets.”

The Institute for Public Policy Research responded that

“Today’s announcement on doubling investment in flood defences over the next six years to £5.2bn is welcome but much more is needed. ‘The funding announced today is still less than the £1bn a year that the Environment Agency says it needs.’⁵

³ <https://prospect.org.uk/news/budget-2020-3-take-aways-for-prospect-members/>

⁴ <https://www.transport-network.co.uk/Budget-2020-Flood-hit-areas-to-share-200m-defence-fund/16513>

⁵ <https://www.themj.co.uk/Budget-2020-Flood-hit-areas-to-share-200m-defence-fund/216999>

Heritage

Announcements included:

- a £250 million Cultural Investment Fund for “culture, heritage, local museums, and neighbourhood libraries” of which £90 million will be made available from April for a Cultural Development Fund that will support cultural regeneration proposals outside of London
- £27 million for critical maintenance work on the National Museums’ estates

IT and telecoms

Announcements included:

- £5 billion investment in gigabit broadband rollout in the hardest-to-reach areas of England, Scotland, Wales and Northern Ireland
- the next seven areas that have successfully bid for funding from the third wave of the Local Full Fibre Networks Challenge Fund
- a “Shared Rural Network” agreement between the government and industry under which .government will commit up to £510 million of funding, which will be more than matched by industry, to improve 4G mobile coverage

Public services

As part of its increase in R&D funding (see below) the government announced that it would “Invest in government science capabilities and public science estate” to “help the government to ensure that it is sufficiently equipped to foresee challenges and opportunities and improve public services”. This includes:

- £2 million in 2020-21 to expand the capability of the Government Chief Scientific Adviser and the Government Office for Science
- £1.4 billion over 10 years for the APHA facility at Weybridge
- £180 million over 6 years for a storage and research facility for the Natural History Museum at Harwell Science and Innovation Campus

The Budget confirmed a “Reforming Regulation Initiative” that will

“invite ideas from business and the public for regulatory reform in order to ensure that regulation is sensible and proportionate now that the UK has left the EU, and that the interests of small businesses are taken into account.”.

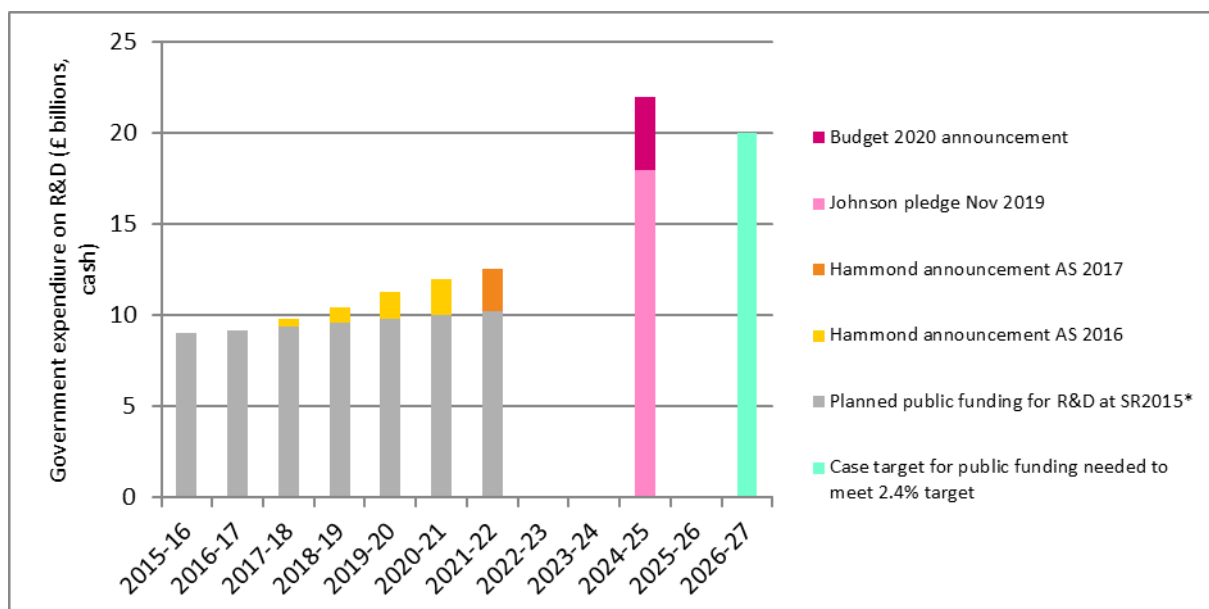
The consultation is now live and closes on 11 June.⁶

Science

⁶ <https://www.gov.uk/government/consultations/reforming-regulation-initiative>

The Budget announced a further increase to planned R&D spending on top of those committed by Philip Hammond in recent years and the increase promised by the Prime Minister during the general election.

Planned spending for 2024-25 of £22 billion now exceeds the target set by the Campaign for Science and Engineering as needed to achieve the Government’s aim of raising total R&D expenditure to 2.4% of GDP by 2027.



Precise allocations of these funds will be unveiled over the coming months and years. Most of the additional money is likely to end up in the Higher Education sector, which is the main recipient of public R&D spending at the moment.

However some may find its way to public sector laboratories and research institutes, which the Government seems to be taking more of an interest in than recent years. A review of government science capability published at the end of last year stated that “The wide range of Public Laboratories that are owned by government present a significant resource for government in the leadership of outstanding ‘directed’ R&D” and recommended that:

“The Government should make greater use of Public Laboratories as leaders in directed R&D programmes, and in supporting innovation through intermediate technology readiness levels. Government should give greater support to them in this role.”⁷

In addition to the announcements regarding public sector science capabilities (see above), the Budget made some announcements about specific R&D funding allocations, including:

- £800 million for a new funding agency modelled on ‘ARPA’ in the US to fund “high-risk, high-reward science”
- £80 million over the next five years for specialist institutions such as the London School of Hygiene and Tropical Medicine, the Royal College of Art and the Institute of Cancer Research among others”

⁷ <https://www.gov.uk/government/publications/government-science-capability-review>

- doubling the size of the Energy Innovation Programme
- an extra £12 million for the National Institute for Health Research in 2020-21
- £900 million “to ensure UK businesses are leading the way in high-potential technologies” by “commercialising nuclear fusion technology, offering potentially limitless clean energy, and supporting the government’s ambitious National Space Strategy and space innovation fund”

In response to the Budget Prospect commented:

“The Government’s commitment to invest more in science and research across the country is a welcome step.

“It is vital that this money is used to rebuild vital public sector science capacity which has been eroded in recent years, and that the new funding is matched by private sector investment in key sectors like telecoms and pharmaceuticals.

“However the government must not fall into the trap of believing that investing in science and research compensates for the loss of access to EU science funding and networks. It is still vital to secure a comprehensive science partnership with the EU and the government must commit to upgrading their ambitions if we are to fulfil our science potential as a country.”⁸

Transport

The Budget included announcement of the Second Road Investment Strategy (RIS2) for Highways England which includes around £27 billion of spending on strategic roads between 2020 and 2025.

The Association for Consultancy and Engineering, said:

“With infrastructure investment now totalling more than £600bn over the next five years, or around 3 per cent of GDP, the headline takeaway figures are great news for society, our members and wider industry. The numbers exceed ACE’s manifesto and the National Infrastructure Commission’s recommendations. There is no doubt that this is an historically huge commitment to investment in the future of our country and recognition of infrastructure’s vital role in driving long-term economic growth”

Law firm Pinsent Masons warned about potential disruptions in light of skills shortages, new immigration restrictions, working through of Brexit settlements and the current effects on supply chains of the Covid-19 virus.⁹

This briefing will be updated as new information and analysis comes to light. Please direct any suggestions, corrections or queries to martin.mcivor@prospect.org.uk

⁸ <https://prospect.org.uk/news/new-rd-spending-must-be-used-to-rebuild-vital-public-sector-science-capacity/>

⁹ <https://www.newcivilengineer.com/latest/roads-announcements-get-mixed-reception-12-03-2020/>