March Budget 2021

The Chancellor of the Exchequer Rishi Sunak delivered his second Budget on 3 March 2021. As well as the usual updates on the performance of the economy and the state of the public finances, the Chancellor set out broad policy direction in three main areas: the government's on-going economic response to Covid-19; steps to repair the public finances as the economy gains strength; and the future direction of policy on economic investment. There were relatively few announcements relating to public spending or local government. The key policy headlines are summarised below.

Overview

Key Headlines

- **100 per cent Business Rates Reliefs for retail, hospitality, and leisure are extended to the end of June 2021** and continue at 66 per cent for the remainder of the year (subject to capping).
- **Restart Grants** 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 will be provided.
- An additional **£425 million of discretionary business grant funding** will also be provided – details TBC.
- The **Coronavirus Job Retention Scheme will be extended** from May until the end of September 2021.
- The temporary £20 per week **increase to the Universal Credit standard allowance will be extended** for a further six months, on top of the planned uprating.
- **VAT reduction for the UK's tourism and hospitality sector** – The temporary reduced rate of 5 per cent VAT for goods and services supplied by the tourism and hospitality sector will be extended until 30 September 2021.
- **£4.8 billion Levelling Up Fund** and **£220 million UK Community Renewal Fund prospectus**es were launched.
- **Contain Outbreak Management Fund (COMF) will continue** for the first two months of 2021-22, and an updated COMF framework for local areas will be announced in March
- **Shared Accommodation Rate exemptions brought forward** - From June 2021, care leavers up to the age of 25 and those under the age of 25 who have spent at least three months in a homeless hostel will be exempt from the SAR in Universal Credit and Housing Benefit.

LONDON COUNCILS

- £700 million **of Education catch-up funding** was announced.
- The timing of Adult Social Care reforms, the Fair Funding Review or the future of business rates retention were not confirmed, although it was confirmed **the Spending Review will be "later in the year".**
- The **fundamental review of NNDR will now report in the Autumn** and a "command paper" on taxation policies will be published on 23rd March.
- The **new UK Infrastructure Bank** will offer loans to local authorities at a rate of gilts + 60 basis points for strategic infrastructure projects from the summer.

Public sector net debt is predicted to increase to over 100 per cent of GDP in 2020, remaining above this level till 2024/25 and peaking at 109.7 per cent

Economic and Fiscal Outlook and Indicators

The UK's economy has experienced the largest economic shock in over 300 years due to the ongoing coronavirus pandemic. With GDP falling 9.9 per cent in 2020, the largest decline in the G7, the independent Office for Budget Responsibility (OBR) forecasts the economy remaining weak in the near term. With the economy reopening, government borrowing is forecast to fall from a peacetime high of £355 billion (16.9 per cent of GDP) in 2020/21 to £234 billion (10.3 per cent of GDP) in 2021/22. Thereafter, as policies focus on recovery and tax rises are introduced, borrowing is predicted to fall to £74 billion (2.8 per cent of GDP) in 2025/26.

Tax rises announced in this Budget increase the tax burden from 34 per cent to 35 per cent of GDP in 2025/26, its highest level since the late 1960s.

Public sector net debt is predicted to increase to over 100 per cent of GDP in 2020, remaining above this level till 2024/25 and peaking at 109.7 per cent. Based on the OBR's forecast, the government is set to miss all four fiscal objectives by wide margins CPI inflation has fallen below targets, reaching 0.5 per cent in the fourth quarter of 2020. It is forecast to remain below the MPC's 2 per cent target over the coming years, increasing towards it by the end of 2025.

The current unemployment rate is 4.5 per cent, with an expected peak at 5.9 per cent in 2022 set to fall to 4.4 per cent at the end of the forecast period. Employment is expected to fall in the coming years due to a lagged effect of government support withdrawals on business insolvencies.

Comprehensive Spending Review 2020

The government will conduct a Spending Review later this year to set future departmental RDEL and CDEL budgets. Details on SR21, including the RDEL and CDEL envelopes, will be set out "in due course."

Business Rates reliefs

100 per cent Business Rates Reliefs for retail, hospitality, and leisure properties has been extended to the end of June 2021. From July 2021 to April 2022, this will taper to 66 per cent relief, capped at £2 million for properties closed under the current lockdown and £105,000 for others. This will affect an estimated 750,000 properties in England, and most eligible businesses will therefore receive 75 per cent relief across the year as a whole. Local authorities will be fully compensated for the loss of income as a result of these business rates measures and receive new burdens funding for administrative and IT costs.

Fundamental Review of Business Rates

Postponement of the outcome of the fundamental review of business rates until the autumn was confirmed prior to the Budget. An interim report will be published on 23 March, along with numerous further consultations on wider reaching changes to the tax system. In the interim, HMRC will carry out initial design and development of Digitalising Business Rates to modernise the business rates system in England.

Employment & Business Support

The Budget confirmed a range of employment and business support measures, including: Extension of the Coronavirus Job Retention Scheme for a further five months from May until the end of September 2021; tranches four and five of the Self-Employment income Support Scheme (SEISS) grant, and the Recovery Loan Scheme which will provide lenders with a guarantee of 80 per cent on eligible loans between £25,000 and £10 million.

Of most interest to local authorities are the **Restart Grants** 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. An additional **£425 million of discretionary business grant funding** will also be provided to local authorities on top of the £1.6 billion already allocated. It is expected that the distribution will be dependent on performance against existing ARG spending.

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Welfare

The Budget confirmed a range of support measures for individuals, including the extension of the temporary £20 per week increase to the Universal Credit standard allowance for a further six months, on top of the planned uprating, and Additional support for Working Tax Credit claimants. This will see a one-off payment of £500 to eligible Working Tax Credit claimants to provide additional support over the next six months.

The government also announced that they will be bringing forward exemptions to the Shared Accommodation Rate (SAR). From June 2021, care leavers up to the age of 25 and those under the age of 25 who have spent at least three months in a homeless hostel will be exempt from the SAR in Universal Credit and Housing Benefit, these measures were previously due to be implemented from October 2023.

Finally, the National Living Wage will rise to £8.91 from April, from £8.72. That is a 2.2 per cent rise and will be for people aged 23 and over.

Health

The government announced an additional £400 million funding for the Contain Outbreak Management Fund) on 22 February to cover further public health activities in 2021/22. Further details will be announced in due course. An updated Covid-19 contain outbreak management framework for local areas will be announced in March but the date for publication of Public Health Grant allocations for 2021/22 is still unclear.

£1.65 billion will be allocated for 2021/22 to continue the vaccine deployment programme in England, and there will be a further £28 million to increase the UK's capacity for vaccine testing and support for clinical trials.

Finally, the government will provide an additional £10 million in 2021/22 to the Armed Forces Covenant Fund Trust, to deliver charitable projects and initiatives across the UK that support veterans with mental health needs

Social Care

Although no there were no further details of the timeline for the ASC reforms the government did announce an additional £19 million for tackling domestic abuse, on top of the £125 million announced at SR20. This will include £15 million in 2021/22 for perpetrator programmes that work with offenders to reduce the risk of abuse continuing and £4 million in 2021/22 and 2022/23 to trial a network of 'Respite Rooms' across England to provide specialist support for homeless women facing severe disadvantage.

Housing and Homelessness

A new mortgage guarantee scheme will be introduced in April 2021, providing a guarantee to lenders offering mortgages with a deposit of 5 per cent on homes with a value of up to £600,000, in addition to the three month extension of the temporary increase in the residential stamp duty Nil Rate Band to £500,000.

From June 2021, care leavers up to the age of 25 and those under the age of 25 who have spent at least three months in a homeless hostel will be exempt from the SAR in Universal Credit and Housing Benefit to help access suitable housing

> **The £700 million of further funding to help young people in England catch up on lost learning as a result of Covid-19 includes a one-off £300 million Recovery Premium for state primary and secondary schools**

Infrastructure investment

Investment in infrastructure was dominated by the government's levelling up agenda. This was particularly apparent in the approaches to prioritisation for the **£4.8 billion Levelling Up Fund** and the **£220 million UK Community Renewal Fund**, prospectuses for which were both published alongside the budget. Other levelling up announcements included – Further investments announced for growth deals, city deals and the Towns fund **(£1bn for 45** projects was confirmed); a National Infrastructure Commission (NIC) Towns and Regeneration study; £18.8 million in local cultural infrastructure projects in Carlisle, Hartlepool, Wakefield and Yeovil; A66 development funding; Intra-city transport settlements; Birmingham Interchange Station; Investments in local railways and stations; Commencement of flood schemes; offshore wind ports infrastructure and the **£150 million Community Ownership Fund** aimed at towns and villages across the UK.

The Thames Freeport bid was successful. Tax sites within Freeports will need to be approved and confirmed by the government. Businesses in these tax sites will be able to benefit from several tax reliefs including Full Business Rates relief for all new businesses, and certain existing businesses where they expand, until 30 September 2026. Relief will apply for five years from the point at which each beneficiary first receives relief.

Transport and Environment

A range of environmental taxes were frozen including Aggregates Levy (frozen for 2021-22) Carbon Price Support (frozen at £18 per tonne of carbon dioxide in 2022-23) Fuel Duty frozen (for 2021-22) and reduced and standard short-haul rates of Air Passenger duty. 11 Long-haul rates will increase in line with RPI as will Vehicle Excise Duty rates for cars, vans and motorcycles

The government will issue its first sovereign green bond – or green gilt – this summer, with a further issuance to follow later in 2021. Green gilt issuance for the financial year will total a minimum of £15 billion. The green gilt framework, to be published in June, will detail the types of expenditures that will be financed to help meet the government's green objectives. The government will also offer a green retail savings product through NS&I in the summer of 2021. This product will be closely linked to the UK's sovereign green bond framework. Dame Clara Furse will establish a new group with the aim of positioning the UK and the City of London as the leading global market for high quality voluntary carbon offsets.

Education and Skills

The main announcement was of **£700 million of further funding will help young people in England catch up on lost learning as a result of Covid-19.** This new package includes a one-off £300 million Recovery Premium for state primary and secondary schools, £200 million to expand tutoring programmes and deliver early language support, and **£200 million for secondary schools to deliver face-to-face summer schools.**

There were a range of initiatives to support young people including an additional £126 million for high quality work placements and training for 16-24 year olds, an extension and increase to the payments made to employers in England who hire new apprentices and a £7 million fund available from July 2021 to help employers in England set up and expand portable apprenticeships.

General Taxation

On personal taxes, the government announced that Income tax thresholds will be frozen from April 2022 until April 2026 and that National Insurance contributions (NICs) thresholds will rise with CPI in 2021/22 as previously announced. Other personal tax thresholds freezes included inheritance tax thresholds, the pensions Lifetime Allowance and the Annual Exempt Amount for Capital Gains Tax which will be maintained at their existing levels until April 2026.

On corporate taxes, the main headline was that Corporation Tax will increase from April 2023 to 25 per cent on profits over £250,000. The rate for small profits under £50,000 will remain at 19 per cent and there will be relief for businesses with profits under £250,000 so that they pay less than the main rate. However, there will be a super-deduction for capital allowances. From 1 April 2021 until 31 March 2023 this will see companies investing in qualifying new plant and machinery assets benefit from a 130 per cent first-year capital allowance. This upfront super-deduction will allow companies to cut their tax bill by up to 25p for every £1 they invest. Investing companies will also benefit from a 50 per cent first-year allowance for qualifying special rate (including long life) assets.

On VAT, the temporary reduced rate of 5 per cent VAT for goods and services supplied by the tourism and hospitality sector will be extended until 30 September 2021. To help businesses manage the transition back to the standard 20 per cent rate, a 12.5 per cent rate will apply for the subsequent six months until 31 March 2022. There will also be a new payment scheme for VAT deferrals which will allow any business that took advantage of the original VAT deferral on VAT returns from 20 March through to the end of June 2020 to use the VAT Deferral New Payment Scheme to pay that deferred VAT in up to eleven equal payments from March 2021, rather than one larger payment due by 31 March 2021, as originally announced.

> **"The package of measures to support businesses and employees through the pandemic will generally be welcome by London boroughs... However, the measures to support longer term recovery were more disappointing"**

Commentary

As expected, the March Budget was dominated by the continuing response to the pandemic, and while some significant taxation decisions – such as raising Corporation Tax to 25 per cent - signalled the some longer term recognition of the need to begin to address the huge deficit created by record levels of borrowing this year and next, overall it did not go as far as London local government would have hoped – either in terms of providing the foundations for a strong economic and social recovery in London, or in delivering financial certainty for local authorities.

The package of measures to support businesses and employees through the pandemic will generally be welcome by London boroughs. London Councils had called for an extension of business rate reliefs for hospitality, leisure and non-essential shops; an extension to the Job retention scheme; broadening of support for the self-employed, and for supportive VAT measures for the hospitality sector in particular to continue. The announcements in these areas were all positive. As was the confirmation of further grants to businesses via the Restart Grants scheme and additional £425 million of discretionary business grant funding, although it will be important that guidance for these two grants is issued swiftly by government and is less complex than previous grants.

However, the measures to support longer term recovery were more disappointing. London still faces significant levels of job losses and economic hardship that will have a long-term impact, especially on people dealing with long-standing inequalities. Ahead of the Budget, London Councils had called for a raft of measures to support London's recovery, including to boost housing delivery, supporting longer term job creation and productivity by through skills devolution, investment in London's highways by devolving Vehicle Excise Duty, and properly equipping boroughs to drive a green recovery. The measures announced did not go far enough.

Aside from the positive announcements regarding the Thames freeport and the UK Infrastructure Bank (that will offer loans to local authorities at a rate of gilts + 60 basis points for strategic infrastructure projects from the summer), the measures that were announced to support the economic recovery present a growing challenge for London boroughs and Londoners. In particular, the further £1bn investment in 45 towns through the Towns Fund, and the prospectuses for the Levelling Up Fund (where only two London boroughs are in the highest need category based on the government's index) and the UK Community Renewal

Fund (where no London boroughs are in the 100 "priority areas"), make it clear that attracting central government investment in London will be increasingly challenging in future.

The financial support provided for councils to address pressure caused by the pandemic in 2020/21 has been very welcome, although there will be a shortfall on council tax, business rates and other income losses which will impact boroughs finances over the next few years without more support.

London Councils had sought an extension of the 75 per cent compensation schemes for lost tax and sales, fees and charges into 2021/22 and to cover all losses, and so the Budget was disappointing on this front. Even with all the support from government, boroughs will have an estimated shortfall of £300 million to carry into 2021/22 as a result of the pandemic.

> **More broadly, the Budget was a missed opportunity to provide some financial certainty for the sector**

More broadly, the Budget was a missed opportunity to provide some financial certainty for the sector. Less than a month from the start of the financial year, local authorities are still awaiting public health grant allocations, and there was no mention of a timetable for the long-awaited reforms to adult social care, the conclusion of the Fair Funding Review, or the future of business rates retention – with the outcome of the Fundamental Review of Business rates pushed back to the autumn. Despite the welcome extension of business rates reliefs announced in the Budget, London boroughs are particularly exposed to business rates income losses next year which may exacerbate the unsustainable pressures on budgets that had already been increasing before the pandemic struck. A long-term solution to local government funding that is less reliant on business rates is long overdue and must be delivered in the Spending Review later this year.

London Councils will continue to make the case for London local government ahead of the Spending Review in order to ensure it reflects the specific needs of Londoners and the associated demands on London local government.

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