



12 MARCH 2020

# UK Budget

Quick view

## Executive Summary

- The significant commitment to spending shows that the government is serious about mitigating the impact of Covid-19 and there was clearly joined up thinking with the Bank of England announcing its rate cut on Budget day.
- The last time a rate cut decision was made outside of a scheduled meeting was 2008. The rate cut will improve liquidity and in theory reduces the cost of borrowing. However, the cost of borrowing being reduced relies on lenders passing on the saving. This may not happen if they view the environment to be higher risk.
- The fiscal policy action is intended to instil confidence in the economy and avoid short term distress, with a focus on households and SMEs.
- Beyond Covid-19, the commitment to spending increases over the next five years should boost economic growth and represents a defence against the economic uncertainties from Brexit, particularly around trading relationships.
- The Chancellor claims that despite additional borrowing, there will continue to be a budget surplus (£11.7 bn in 2022/23), and we will stay within current fiscal rules. However, this is based on now out-of-date OBR assumptions, and does not reflect the likely economic impact of Covid-19.
- The extra public investment takes government spending to 3% of GDP, a level not seen on a sustained basis for decades. As this plays out and economic growth is downgraded, the Chancellor may eventually come under more pressure to balance public finances. However, in the short term, the main focus will be on mitigating the impact of Covid-19 and the measures to do so are likely to be well received.

## Will the Chancellor 'get it done'?

The UK budget on 11 March was very much a mix of Covid-19 and Keynesianism, neither of which would have been expected to feature in a Conservative government budget a few months ago.

The first part of the budget was very much focused on the impact of Covid-19, whilst the second part of the budget saw a commitment to significant spending increases, representing a substantial political shift by the Conservatives. According to the OBR, the 2020 Budget is the largest sustained fiscal boost to the UK economy in 30 years.

## The Covid-19 budget

**The Chancellor opened with a range of measures to mitigate the economic damage of Covid -19. The view so far is that the virus has already had a significant impact and the Chancellor sees it as a serious but short lived threat.**

Along with the emergency 50 bps interest rate cut announced by the Bank of England just ahead of the budget, the Chancellor announced £30bn of spending in 2020-21 to combat Covid-19. However, careful reading of the budget statement suggests the actual figure is closer to £12bn worth of real new spending to combat the virus.

Nevertheless, the package seems to hold up well relative to the fiscal measures other comparable countries have taken and the government does seem committed to doing 'whatever it takes' to combat the risk of Covid-19 to the economy. To tackle weaker economic growth, the government will support smaller businesses, the self-employed and the gig economy, which are likely to suffer most as a result of increased employee sick leave.

Whilst employees on zero hour contracts seem to have been left out, the cost of statutory sick pay for SMEs (businesses with fewer than 250 employees) will be provided in full for 14 days, and from day 1 rather than after a week. Furthermore, a temporary loan scheme has been devised in which the government will guarantee 80% on loans to SMEs up to 1.2 million, encouraging continued lending to small businesses.

This is clearly aimed at boosting confidence in the economy, and avoiding short term distress and job losses – very much a welcome boost especially to smaller businesses. However, whether that will be enough, only time will tell.

## The productivity puzzle

**The UK has suffered for ten years from low productivity growth, which continues to drag on the economy, and there now seems to be significant impetus for solving the puzzle, with the government committing to substantial investment.**

The government's plan to boost productivity is rightly rooted in investment in Research & Development (R&D) investment in technology. £22 billion is set aside for R&D by 2024-25, which would make up the largest proportion of GDP in nearly forty years, and place the UK ahead of USA, Japan, France and China. This will go some way to hitting the UK's stated target of R&D making up 2.4% of GDP BY 2027.

This commitment to R&D goes hand in hand with fighting the Covid-19, with The Science Institute in Weybridge, which is already working on the virus, receiving investment of over £1.4 billion over ten years.

Furthermore, £900 million is set aside for nuclear fusion, space and electric vehicles, the last of which aligns with the government's green agenda, including a £500 million roll out of rapid charging hubs for electric cars.

The government has pledged to 'unleash the power of business' by spending £130 million to extend start-up loans, providing £200 million to the British Business Bank to invest in scale-ups and £200 million to support the life sciences sector.

The unpopular Entrepreneur Relief has been revised, saving the government £6 billion over five years. The chancellor has pledged to spend the savings on increasing the R&D expenditure credit from 12-13%, increasing the structures and buildings allowance to 2-3% - £100,000 of relief for a building worth £10 million, and an increase in the employment allowance by a third to £4,000.

## Climate action

**There is some good news towards the 2050 carbon reduction target with the government's introduction of an increased levy on gas in 2022-23 and 2023-24, whilst freezing the rate on electricity, and an £800 million boost to carbon capture and storage. Despite the commitment to electric vehicles, the significant investment in road infrastructure and a freeze on fuel duty sends out mixed messages, and could discourage cleaner methods of transport.**

There was a lack of focus on buildings, energy efficiency and carbon reduction in the real estate sector, which will be essential to meeting the 2050 net zero carbon target. This will need to be addressed by The Treasury's Net Zero Review and the Spending Review later this year, particularly how targets relate to real estate and infrastructure ahead of COP26 in November.

## Business rates – time for a fundamental review

**The fiscal stimulus continued with the Chancellor's decision to abolish business rates for pubs, shops, cafes and restaurants, as well as hotels and museums with a rateable value of under £51,000 until financial year end 2020/21. The chancellor will also provide a cash grant of £3,000 to businesses which are eligible for the small business rates relief.**

This reflects a tax cut of around £1bn, translating to £25,000 per business. The government has announced a further policy review of business rates, which will be launched in autumn 2020 to assess the long-term future of business rates, a move that is long overdue.

There is a question, however, as to whether these measures will prove just a short term sticking plaster or mark the start of an enduring policy shift on business rates – there is a real opportunity to make fundamental changes in the deeply unpopular business rates system, with the potential for linking to the green agenda.

The issue is how far the government will commit to major reform, given that business rates provide a very stable tax base with certainty of income of over £25 billion a year in England alone.

This is by no means the first time the government has promised a fundamental review of the business rates system. We expect they will shy away from major reform (particularly around alternative forms of taxation) for fear of creating very distinct winners and losers. It would take a considerable period of time to introduce any new tax system, and in doing so understand wider implications across sectors, including commercial property, where rent and rates are so profoundly linked.



## Levelling up

**The budget delivered on the numerous post-election promises of significant investment into 'levelling up the regions'. There is a commitment to spending on infrastructure and affordable housing. Importantly, there is an understanding of the link between innovation and the productivity gap between London and the rest of the UK, with spending commitment on R&D including £400 million set aside for UK universities, although the regional split was unclear.**

The government continued to commit to city and growth deals, with more cities gaining power and flexibility on driving local economies.

The decentralisation of government jobs away from central London continues, with 22,000 civil servant jobs to be relocated in order to help focus government decision-making on the needs of the regions. This commitment will continue to drive significant regional office demand over the next few years.

The government plans to spend £175 billion on extra infrastructure over the next five years to boost future prosperity; according to the OBR this will increase GDP growth to 0.5% above what it otherwise would have been.

This investment in infrastructure represents the highest level of public net investment since 1955. This is not just on public transport, albeit the commitment to the Midlands Rail Hub will be a welcome boost to the region - the second Road Investment Strategy (RIS2) will allocate £27 billion to road infrastructure, with many of these roads increasingly used by electric vehicles – the government has provided £532 million for consumer incentives for ultra-low emission vehicles.

There was a commitment of £5 billion on ensuring regions have access to Gigabit broadband, and a pledge to provide 95% of the country with 4G in the next four years, ensuring that the country is futureproofed, and our cities continue to be fit for purpose, and able to attract talent from around the world.

The budget additionally allocated £120 million to repair damage to flood defences as a result of recent storms. £200 million will also be provided to local communities to build better flood resilience for the future. Overall spending on flood defences will double to £5.2 billion over the next six years which aligns with the government's climate change strategy.

## Housing – Ensuring deliverability

**The government will be investing a further £9.5 billion in the Affordable Homes Programme, taking the total spend to over £12 billion. New funding will be available from 2021-22 and is a meaningful commitment to supplying new affordable housing.**

The extension of the Affordable Homes Programme is welcome news but the devil will be in the detail as to whether this will significantly increase delivery of the most discounted tenures, where the biggest shortfall lies. The industry will also be watching to see whether the new funding will stipulate that rented homes built with it are subject to a new 'Right to Buy Shared Ownership' policy. This was raised at the Conservative Conference last October, although it did not appear in the manifesto and could negatively impact demand for the new funding were it to be introduced.

£1.1 billion has been allocated to the Housing Infrastructure Fund, which will help unlock the delivery of approximately 70,000 homes in nine different areas, including regional cities, with Manchester, South Sunderland and South Lancaster all name-checked in the budget speech. There will also be money allocated to unlocking development on brownfield sites, with £400 million provided to Mayoral Combined Authorities for this purpose.

In the aftermath of the Grenfell Tower disaster, the government will invest an additional £1 billion in a 'building safely' fund to remove unsafe, combustible building materials. Current government funding only addresses tall buildings with Aluminium Composite Material (ACM) cladding, the additional funding will be for all types of unsafe cladding on tall buildings and be available to the private and public sector. This investment alone will not be enough and the Chancellor did say that the private sector will be expected to 'play its part' in tackling the problem and we expect further detail to emerge on this.

From 1st April 2021, the government will implement a new Stamp Duty Land Tax (SDLT) surcharge on non-domestic buyers acquiring residential property - an additional 2%. Previously, international buyers were subject to the same rules as domestic buyers with stamp duty rates ranging from 0% to 12%, depending on the value of the property. The ostensible purpose of the surcharge is to cool the inflationary pressure on house prices from overseas demand. With sterling at historically low levels, UK property will still present relatively good value to many overseas purchasers, so it seems unlikely it will have a substantial impact. It may however cause some short term distortion, as it will encourage overseas buyers to transact this year before the new tax is introduced. It may also mean that developers, who often rely on early stage off plan overseas sales to help fund their developments, may accelerate schemes.

The Chancellor used the budget to trail an announcement by the Secretary of State, setting out a roadmap for planning and housing delivery over the next twelve months. The announcement included the launch of a new consultation on Permitted Development (PD) rights to allow vacant buildings to be demolished and replaced with new homes. It also confirmed the introduction of PD rights on upwards extensions of existing buildings which the government had previously committed to. More detail will be revealed in the much anticipated Planning White Paper, which we have been promised by the summer and expect to be faced with a mixed reception.

**Should you wish to discuss any details  
within this report please get in touch.**

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