

Budget 2023 AELP Briefing

Overview

Following the turbulent fiscal statements delivered last autumn this budget set piece was always going to be a more low-key affair. The Chancellor has very little fiscal headroom available and is intent on bringing the public finances back into line over the next five years. With little wiggle room in the public finances, this budget was never going to be one with major tax and spend giveaways. In fact, the trend of tax rises under this government has continued, with the planned rise in corporation tax from 19% to 25% maintained alongside a freeze in the personal tax allowance for individuals.

Chancellor Jeremy Hunt outlined his four pillars for economic growth – Everywhere, Enterprise, Education and Employment. However, if we are looking for a unifying theme underlying much of the budget, it would be about ‘long-term healthy growth’ and ‘returning to work’. Since the COVID pandemic the number of economically inactive people in the UK economy has risen 1.1% to 21.3%, and unlike many other European countries this number has not returned to pre-pandemic levels. Therefore, the Chancellor has announced measures to encourage people to reenter the labour market, with investment in childcare, pension reform and announcements on skills investment for those over 50.

Economy

- OBR forecast that the UK will not enter a technical recession this year. The economy is due to contract 0.2% in 2023, before growing 1.8% in 2024.
- OBR projects inflation will fall from 10.7% to 2.9% by the end of 2023.
- Excluding students, there are 6.7 million people of working age not in work.

Skills announcements

Disappointingly the budget was very light on skills announcements, with no radical new reforms or major investment.

Returnerships – The government will introduce Returnerships, a new offer promoting *existing* skills interventions to the over-50s. While detail is scarce at this point a £63.2 million investment has been announced for an additional 8,000 Skills Bootcamps in 2024-25 in England, costing £40m per annum and 40,000 new Sector-Based Work Academy Programme placements across 2023-24 and 2024-25 in England and Scotland – being funded at an overall cost of £40m across the two year,

The extra funding for SWAPs starts in 2023/24 while the funding for Skills Bootcamps will start in 2024/25, so a further 18 months away.

Beyond this investment returnerships appears to be a reframing of existing accelerated apprenticeship offers, with Accreditation of Prior Learning allowing the learner to reduce the duration of the apprenticeship.

Extending Train and Progress – Train and Progress increases the length of time that UC claimants in the Intensive Work Search regime can spend on full-time training from 8 weeks to 12 weeks (and to 16 weeks in certain subject areas which have Skills Bootcamps), while still remaining eligible for UC. The government will extend this flexibility to April 2025.

Supported Internships - For young people, the government will invest an additional £3m over the next two years in the Supported Internships Programme to pilot an expansion of the programme in England for young people entitled to Special Educational Needs support who do not have an Education, Health and Care Plan (EHCP).

Investment Zones – The government has announced 12 new investment zones across the UK, backed by £80 million over five years to help develop knowledge-intensive growth clusters. Investment Zones will have access to flexible grant funding to support skills and incentivise apprenticeships.

Devolution – As part of the trailblazer deeper devolution deals, the government has committed to give Greater Manchester and West Midlands Combined Authorities single multi-year funding settlements at the next Spending Review. This settlement will include devolved policy areas such as adult skills. The government will also withdraw central government funding for Local Enterprise Partnerships (LEPs), with the intention that their powers be transferred to local government. The role of LEPs always looked somewhat stayed with the roll out of Local Skills Improvement Plans (LSIPs).

Employment support programme for Ukrainians – The government will provide £11.5 million to help Ukrainians fleeing the war who have arrived in the UK under the Ukraine Visa Schemes to boost their English language skills, enter employment and support their integration into society.

Analysis

The OBR forecasts will have been hugely welcome for the government and allow it to claim it is delivering on its priorities of halving inflation, growing the economy and getting debt falling.

As mentioned above this budget was always likely to focus on long-term growth and stability, given the excesses of last autumn's fiscal statements. Despite the constraints on the Chancellor there were major choices that have been made that highlight the government's priorities. For example, after months of saying there is no money for nurses and teachers the government has found £6 billion to freeze fuel duties. This budget therefore has done very little if anything to placate those on strike.

The government has also stolen a political march on the Labour Party with its big announcement on free childcare. Investment in childcare is likely to be one of the major items on the Labour Party manifesto going into the next general election, and this announcement will to some extent blunt childcare as a political issue.

One interesting point that shows how far the fiscal position of the UK has changed in the past year is around Jeremy Hunt's changing views on corporation tax. Only last year he advocated reducing corporation tax from 19% to 15%, yet here he was going ahead with the planned rise in corporation tax from 19% to 25%. This is partly a reflection of the fiscal black hole the Chancellor is aiming to fill.

Response

Labour Party

Keir Starmer responded to the budget calling it 'managed decline' and 'sticking plaster politics'. Unsurprisingly he was keen to emphasize that the issues the Chancellor is trying to fix – low investment for example – reflect the record of the Conservative governments. He challenged the government on its record of stability, noting that Corporation Tax has changed 22 times since 2010.

He was keen to emphasize again that on a number of policy positions of the current government Labour has led the way, such as the Energy Price Guarantee.

