Institute and Faculty of Actuaries

# IFoA Briefing: Spring Budget 2023

This briefing summarises the key announcements, relevant to the work of actuaries, as outlined in the Spring Budget on 15 March 2023. Ahead of the statement, the Institute and Faculty of Actuaries (IFoA) called on the Chancellor, Rt Hon Jeremy Hunt MP, to go for 'green growth' in the race to net zero. Matt Saker, IFoA President, said:

*"The UK has an opportunity to become a world-leader on climate-related finance, but we need a supportive policy environment in place to do so. We call on the Chancellor in this Spring Budget to set out a framework for Solvency UK investment to support green innovation and encourage more investment in long term renewable energy infrastructure. Actuaries are well-placed to understand the complexities of the changing Solvency UK regime and help to balance those with the long-term strategy around clean energy investment."*

## About the IFoA

The IFoA is a royal chartered, not-for-profit, professional body. We represent and regulate over 30,000 actuaries worldwide and oversee their education at all stages of qualification and development throughout their careers.

## Overview

In his first full Budget as Chancellor of the Exchequer, Jeremy Hunt articulated that the Government was shifting its focus away from the need to provide immediate fiscal stability to the UK economy in the aftermath of former Prime Minister Liz Truss's controversial September 2022 fiscal statement, to one that would now provide the policies to drive economic growth for the future. Declaring the Government was on course to meet Prime Minister Rishi Sunak's priorities to halve inflation, reduce debt and get the economy growing, Hunt announced plans to offer free childcare for infants while boosting business investment incentives and reducing the attractiveness of early retirement. Hunt said the British economy was "proving the doubters wrong," with official economic forecasts showing the UK would no longer enter technical recession as had been previously predicted.

**Economy and Public Finances**

Budgets require the Chancellor to outline accompanying forecasts made by the **Office for Budget Responsibility (OBR)** regarding outcomes for the economy and public finances. Full forecasts published on 15 March can be found here.

The OBR has stated that the economic and fiscal outlook has improved since its previous forecast in November 2022. It notes that the near-term economic downturn is set to be "shorter and shallower;" medium-term output to be higher; and the UK budget deficit and public debt to be lower. Against this backdrop, the Chancellor has spent two-thirds of the improvement in the fiscal outlook on his Budget measures, providing more support with energy bills and business investment in the near term, while boosting labour supply in the medium term. The OBR state that this lowers inflation in 2023 and raises employment and output in the medium term. But it leaves debt falling by only the narrowest of margins in five years' time.

The key takeaways from the OBR's forecasts are:

- **CPI inflation** peaked at 11.1 per cent in October and is expected to fall sharply to 2.9 per cent by the end of 2023, a more rapid decline than was expected in November.

- The OBR's forecast for **public debt** has improved since November but is still materially higher than was forecast in March of last year. The headline measure of public sector net debt peaks next year at 103.1 per cent of GDP, then falls steadily to reach 96.9 per cent of GDP in 2027-28.

- **Underlying debt** – which excludes the Bank of England and is the measure targeted by the Chancellor – does not peak until 2026-27 (a year later than the OBR forecasted in November) at 94.8 per cent of GDP and then falls only marginally (by 0.2 per cent of GDP) in the final year of the forecast. So, in 2027-28, underlying debt stands at 94.6 per cent of GDP. That is 2.6 per cent of GDP lower than in the November forecast, thanks to both lower cumulative borrowing and higher nominal GDP.

- **Public sector net borrowing** in 2022-23 is expected to be £152.4 billion, or 6.1 per cent of GDP. This is down £24.7 billion (14 per cent) relative to the OBR's November forecast, which reflects a mix of economy-related upward revisions to receipts (£14.8 billion) and energy-price-related downward revisions to public spending (£9.9 billion). Headline public sector net debt is expected to finish the year at 100.6 per cent of GDP, 1.2 per cent of GDP lower than forecast in November.

## Main Headlines

The main measures outlined in the statement include:

- The Pensions Lifetime Allowance, previously set at £1.07 million, has been abolished, and the Pensions Annual Allowance will increase from £40,000 to £60,000.

- Free childcare provision has been extended to all children aged from nine months to four years old, giving parents 30 hours a week of childcare.

- The energy price guarantee has been extended for three months, limiting gas and electricity tariffs so that the typical household bill is no more than £2,500 a year. That ceiling was due to rise to £3,000 a year from April 2023.

- Fuel duty has been frozen and the 5p cut in fuel duty has been extended by one year, at a cost of £6 billion.

- Defence funding has been increased by £11 billion over the next five years and it will be 2.25 per cent of GDP by 2025.

- The headline rate of tax on company profits will rise from 19 per cent to 25 per cent on April.

- 12 Investment Zones across the UK including 4 across Scotland, Wales, and Northern Ireland

- A £500 million per year package of support for 20,000 research and development (R&D) intensive businesses through changes to R&D tax credits.

- The introduction of a draught relief, which will see draught products in pubs up to 11p lower than duty in alcohol sold in supermarkets.

## Work and Pensions

- Annual tax-free pension savings allowance increased by 50% from £40,000 to £60,000.
- Lifetime Allowance on pension savings scrapped so people will now be allowed to put aside as much as they can in their private scheme without being taxed (there is currently a £1m threshold).
- An increase in the money purchase annual allowance – the annual limit on the number of tax-free contributions that can be made into a defined contribution pension where amounts have previously been flexibly withdrawn – from £4,000 to £10,000, from April 2023.
- A change in the treatment of negative pension input amount - (PIA) that enables members of different pension schemes to offset a negative PIA in one scheme against a positive amount in another.
- Enhanced midlife MOT: we are providing an enhanced digital midlife MOT offer and expanding the Job Centre Plus midlife MOT offer, which provides in-person financial planning and awareness session for UC claimants aged over 50.

## The Economy and Financial Services

- The headline rate of tax on company profits will rise from 19 per cent to 25 per cent on April.
- 12 Investment Zones will be created across the UK including 4 across Scotland, Wales, and Northern Ireland.
- The Chancellor said the Government will aim to create a larger and more diverse investment system. Hunt intends to announce a plan for this in the next Autumn Budget, which will explore how to utilise money from defined contribution pension funds as well as how to make the London Stock Exchange a more attractive place to list.
- The Government will launch an Artificial Intelligence (AI) sandbox to get AI development to market faster and encourage greater AI research.
- The Government will introduce a new policy of full capital expensing over the next three years to make it permanent as soon as reasonable. This will mean that every pound that companies invest in IT equipment, plant, or machinery can be deducted in full and immediately in taxable profits – almost 25p per every £1.

## Health and Care

- From 2024, the Medicines and Healthcare products Regulatory Agency (MHRA) will move to a different model with almost automatic sign-off to medicines and medical technologies already approved by other regulators, and swift approval for new medicines and technologies such as cancer vaccines.
- A Health and Disability White Paper will be published. The Work Capability Assessment will be abolished. Claimants will benefit from tailored Work Coach support and be able to work without fear of losing their benefits. There will be tailored employment support in mental health and musculoskeletal health services, and expanded access to digital resources and health checks.
- Pension tax reforms will remove disincentives for doctors to work more. A long-term NHS workforce plan is promised ‘shortly.’

## Sustainability

- Subject to consultation, nuclear power will be classed as environmentally sustainable in the UK Green Taxonomy, with access to the same investment incentives as renewable energy.
- Great British Nuclear will support new nuclear builds, as well as a competition for Small Modular Reactors, which the Government will co-fund if demonstrated as viable.
- Up to £20 billion will be made available for Carbon Capture, Utilisation and Storage (CCUS) to capture 20 - 30 million tonnes of $CO_2$ per year by 2030.

- The Climate Change Agreement scheme is extended for a further two years, giving eligible businesses £600m in tax relief on energy efficiency measures.

## Skills and Infrastructure

- The Chancellor announced the establishment of 12 Investment zones (eight in England and four split across Scotland, Wales, and Northern Ireland), with access to interventions worth £80 million over 5 years.
- £600 billion public sector gross investment in infrastructure over the next five years, split across economic and social infrastructure. The Government will publish an updated National Infrastructure and Construction Pipeline later in 2023, reflecting this commitment.
- Now in its final stages in Parliament, the UK Infrastructure Bank Bill will give the UK Infrastructure Bank (UKIB) the powers to accelerate investment into infrastructure projects which tackle climate change and support levelling up.
- The Government has published an Action Plan, supported by £15 million funding over 2023-24, setting out reforms to the Nationally Significant Infrastructure Project (NSIP) planning process.
- In addition, the Government will invest a further £200 million in 2023-24 to maintain and improve local roads.
- On skills, the Budget introduces 'Returnerships': a new offer targeted at the over-50s, which brings together existing skills programmes, supported by £63 million of additional funding. This is in addition to the commitments already made on maths to 18, T Levels, Skills Bootcamps, and the Lifelong Loan Entitlement.

## Next Steps / Further Information

The Policy and Public Affairs Team will be continuing to update members on a regular basis on relevant developments on the announced economic measures within the Spring Budget 2023.

Treasury publications on the Spring Budget are available via the HM Treasury Website. For more information on the IFoA's policy work, or should you wish to discuss any of the points raised in the briefing, please contact Charlie Wynne via Charlie.Wynne@actuaries.org.uk