



Springing into Growth: the UK Budget

The past few years have been marked by political turbulence in the UK, ranging from ‘partygate’ scandals, to the proposed unfunded tax cuts which sent the UK economy into tailspin and Liz Truss packing after a shorter tenure than Ed Balls had on *Strictly Come Dancing*. However, since Rishi Sunak followed as Britain’s prime minister, there has been an air of control with no more hard-hitting headlines of political malfeasance or drastic calls for the removal of cabinet members. When Rishi took over the clear objective was to fix both Liz Truss’s and Kwasi Kwarteng’s large scale failure to sensibly make appropriate decisions. Jeremy Hunt demonstrated better understanding in his budget as he attempts to point the UK economy in a new direction.

Hunt began his speech with positive rhetoric, claiming in November the UK tackled stability, and now they gear up for growth. He quoted estimates released by the Office for Budget Responsibility (OBR) suggesting that, due to changing international factors and the measures taken by the UK government, the country will avoid a technical recession this year.

The newly formed Government have already made U-turns on their predecessors, reversing decisions

made by previous Chancellors Kwarteng and Osbourne. Potentially, the most positive indicator of the government's newfound competency is their insistence on the use of OBR estimates to help guide decisions, rather than the Liz Truss administration's refusal to look at estimates to help influence effective policy.

Chancellor Hunt expressed strong backing for the Bank of England's measures to tackle inflation. Inflation has already reduced from its peak of 11.1% in 2022 to 10.1% in Jan 2023, and the OBR updated their projection to between 2-3% by the end of 2023. This is in line with analysts at Goldman Sachs who predict UK inflation will fall below the 2% BOE target by the end of 2023, provided energy prices are under control.

The current bout of high inflation has been triggered and amplified by global factors, including the lingering supply chain disruptions caused by Covid and the ongoing conflict in Ukraine. If these key drivers of inflation continue to be addressed, then that is why there are bold predictions about rapidly bringing inflation under control.

Previously, a deep recession was widely anticipated with a 1.4% GDP contraction in 2023. However, recent forecasts indicate a contraction of only 0.2%, followed by annual growth of 1.8% in 2024. Furthermore, unemployment is expected to rise by less than the autumn forecasts following policy changes which saw Hunt express his willingness to work with the unions over the recent strike action. However, he has stopped short of meeting their full demands, refusing to adopt solutions that would fuel inflation further, implying that there would be no resolution in sight while inflation remained high.

So, how have these projected improvements been achieved? The core element of the budget is to spur economic growth by strengthening the workforce and promoting private investment. To achieve this, the government is offering tax breaks and incentives to invest in key sectors of the economy. Two primary policies have been implemented to increase workforce availability, targeting two different demographic groups: adults nearing retirement age and new parents struggling with high childcare costs. Through reforming pension rules, the government aims to encourage older workers to stay in the workforce for longer. In addition, affordable childcare will be made more accessible to alleviate the financial burden faced for new parents.

During George Osborne's tenure as Chancellor of the Exchequer, lifetime limits were imposed on tax-free pension contributions. This policy led some professions, particularly doctors, to retire early because they not only lost tax relief gained through pension contributions, resulting in a reduction in their income once they reached the £1 million cap but also incurred significant tax charges on amounts saved above the cap. Hunt's decision to remove this cap aims to encourage high earners to work longer, which is expected to strengthen the workforce.

Secondly for parents, the attempts to revive the childcare system is targeting the 50% of non-working mothers who state they would work if they could arrange suitable childcare. The current expense and inaccessibility of childcare for the masses turns career breaks to career ending ordeals, disproportionately impacting women. Families, where all adults work a minimum of 16 hours, will be entitled to 30 hours of free childcare for any child over 9 months. This measure aims to enhance the UK's workforce, but it may

place a burden on the childcare sector, leaving many families eligible for care without sufficient available workers to meet the demand. The degree to which the government supports the childcare industry during this period of change will significantly determine the scheme's impact on the broader workforce. The Conservative party is also making strides to fight for green issues and is focusing on the UK's usage of carbon capture and storage. Early-stage projects include developing technology in this area and has been allocated up to

£20bn of support. Predictions of the impact of this funding include generating 50,000 new jobs, crafting an attractive arena for private sector investors. Hunt predicts the investment will lead to the capture of approximately 20-30 million tonnes of CO₂ per year. In line with this shift, nuclear power will be classed as environmentally sustainable to encourage private sector investors with ESG alignment to venture into the nuclear area of investment.

Another change in direction seen in the spring budget, is found in the confirmation that the 25% rate of corporate tax will be enforced from 1st April 2023, a 180 degree change from Kwarteng who promised to not only scrap this rate increase but actually decrease the corporate tax rate, in a bid to stimulate growth. The increase in rate by Hunt is accompanied by new reliefs such as the full expensing regime for capital allowances and investment zones allowing tax relief on investments made to further specific technologies and industries.

Commentators are expressing concerns about the real effects of this budget on living standards and welfare in the UK. The success of the government's welfare measures and the extent to which increased growth raises total household income across the country will be critical. While some clarity and direction have emerged, many feel that this is just the beginning, but it is a moving in a positive direction. A strong market recovery is possible, and the government are supportive of the required action to make this happen, creating a very interesting investment opportunity.

TAM maintains a positive outlook on the UK markets over the long term, with more stability being garnered through new leadership. The shift towards economic growth is promising, potentially assisting the neglected market in its development moving forward. With reduced uncertainty and better aligned policy we see in the UK, we believe there is significant value in small-cap UK companies and believe that the current government is taking the right steps to aid their recovery from a challenging few years. However, we remain data dependent and observe the most recent inflation print has just shown an increase by 0.3%. While unexpected, it doesn't change TAM's view that the budget is well positioned to compliment the BOE's pursuit of bringing inflation down over time, and our longterm view on the UK remains consistent.