



Madano viewpoint

The Budget That “Gets it Done(ish)”



Chancellor of the Exchequer:
Rishi Sunak MP

The circumstances around the Spring 2020 Budget is not what the Prime Minister hoped for after the December 2019 General Election. A new Chancellor, **Rishi Sunak MP**, has been hurried into post and tasked with putting a confident face on a global emergency. Sunak announced measures for stabilising the financial system during a period of extended disruption – from financial support for SMEs and local authorities, to temporary relaxations on sick pay.

Only then could he set out what a 5-year Conservative Government means for the technology, energy and environment sectors. As promised, ‘levelling up’ was the underpinning theme. The Government will invest substantially in a new Northern Civil Service campus led by the Treasury, backed with major infrastructure, regional growth funding, and new devolved powers for West Yorkshire.

It will take time, but the Chancellor has signaled that the Government’s centre of gravity has slightly shifted to match the election results.

Alongside this, the Chancellor has put research, development and innovation at the heart of a spirit of optimism for post-Brexit Britain. Firstly, R&D spending will be doubled to £22bn, with major investments in ‘Big Science’ capital projects.

The United States’ Advanced Research Projects Agency (ARPA) grew famous for blue-skies moonshots that established world-changing innovations like GPS navigation. The Conservatives want to bottle that magic. By backing a new British ARPA, they will shift how R&D works to try and do just that.

The Government made a strong claim in its 2019 manifesto that it would “prioritise the environment in the next Budget” and the Chancellor did not disappoint today with a series of air pollution, plastic waste and flood defence/recovery measures.

Finally, in energy policy, the Government signaled its intentions to get to grips with the challenges of decarbonising heat and transport, including possible incentives for consumers to purchase low carbon sources of both – though more details will be keenly awaited.

Environment



The Chancellor’s promise to continue the freeze on fuel duty, while committing to halting further levies on electricity and increasing tax on gas by April 2022, may seem contradictory, given the Government’s drive to tackle air pollution.

Weighing the impact on businesses and consumers against the need for action on air pollution, this remains a sensible decision in the short term, as the government has also committed £300m to reduce nitrogen oxide emissions and £500m for new electric vehicle charging hubs.

The mission to reduce consumer waste was given a much-needed shot in the arm, with the Chancellor announcing a new plastic packaging tax - charging £200 pounds per ton on packaging made with less than 30% recycled materials (effective by 2022). Producers’ support will be contingent on whether proceeds are reinvested in updating the UK’s recycling system and ensuring quality materials can be recovered for further reuse.

Given the Government’s slow response to the recent flooding including in many marginal constituencies, a raft of flood defence measures and recovery funds were also announced to the tune of £320m and the Chancellor took pledged £640m for a Nature for Climate Fund to create a natural carbon capture reservoir the size of Birmingham.

All-in-all, a measured set of pledges to keep the UK on track(ish) for net zero by 2050, its pollution reduction goals and its waste reduction project – while maintaining a clear eye on the support of recent Conservative converts.

Energy



If one of the questions facing the Chancellor in this Budget was ‘How does the Government plan to deliver net zero?’, the answer from this Budget was “ask me in October”. With the competing and immediate demands of Brexit and the Coronavirus crisis, it’s not surprising that the Budget was relatively light on specific policy details to help deliver net zero, but those commitments it did make give a clear indication of the direction of travel.

Firstly, there was a highly significant shift in the focus of Government action from the power sector to the harder to decarbonise heat and transport sectors. The commitment to make £500m available for a new Rapid Charging Fund and to look at wider consumer incentives for low emissions vehicles is emblematic of the realisation that much more progress needs to be made in decarbonising transport.

Similarly, the Government has clearly focused on the challenge of decarbonising heat, as seen in the decision to consult on a Green Gas Levy to increase the proportion of green gas in the grid, and in looking at a Low Carbon Heat Support to provide funding for installing heat pumps and biomass boilers. The pledge to deliver two CCS clusters by 2030 can also be seen in this light, given CCS’s essential role in decarbonising energy intensive industries.

Finally, the focus on investment in R&D shows the Government recognises that to meet net zero may require the roll out of technologies that are in the very early stages of development. This suggests this Government is interested in technological solutions to climate change, as opposed to forcing the public to adopt new behaviours, which recent polling suggested would be unpopular.

Technology



For the UK’s tech sector, the Chancellor championed its potential to deliver growth, using uplifts in R&D to promise that he means business. The Chancellor is hoping that a growing tech sector will lead to sustained growth and prosperity, and that a rising tide of innovative technology start-ups will lift all boats. The risk to this image, however, will be cuts in Entrepreneurs Tax Relief from £10m to £1m.

The Government will also explore expanding its Research and Development Tax Credits system to include data and cloud computing, potentially increasing UK private investment in this sector.

Although it was announced earlier in the week, the Chancellor boasted that the new Shared Rural Network will enable the Government to deliver 4G to 95% country. But, a major rebellion from his own party members on Huawei’s role in the delivery of 5G networks earlier in the week, there was little on new funding for this new technology in this Budget.

Finally, though the Chancellor neglected to mention it in his speech, the Digital Services Tax, often called the Tech tax, will be introduced at 2% on the revenues of relevant companies, and take effect in April 2020. Its introduction could further complicate free trade deal negotiations with the USA.