NORTON ROSE FULBRIGHT

UK Budget 2020

Chancellor sets out plans for public spending and taxation

March 2020

On March 11, 2020, Chancellor of the Exchequer Rishi Sunak announced the UK Budget 2020, setting out HM Treasury's (HMT) plans for public spending and taxation for the coming year[1].

This was Sunak's first Budget after taking office only a few weeks following the resignation of Sajid Javid. There had been a significant delay since the last Budget was delivered in October 2018 due to the UK's postponed withdrawal from the European Union (EU) and subsequent 2019 General Election, which caused Javid's planned Budget in November 2019 to be cancelled.

The Budget marks a significant shift in the Conservatives' approach to fiscal policy, moving away from the focus on austerity and fiscal discipline of previous Conservative Governments to one underpinned by high levels of public spending. As expected, a central focus of the Budget supports the Government's agenda of "levelling up" across the UK by raising productivity and growth in all of the UK's nations and regions. Recognising the importance of maintaining support in constituencies in the Midlands and Northern England that "turned blue" at the 2019 General Election, the Budget aims to fulfil the Government's promises to deliver prosperity in those parts of the UK through large scale investment in public services and infrastructure.

The Budget was announced in the context of the global outbreak of COVID-19 (coronavirus), and unsurprisingly, a package of measures will be introduced to support public services, individuals and businesses that may be affected, backed by a £12 billion package to help deal with the virus. On March, 17, Chancellor Sunak announced further measures to help businesses and individuals through the crisis. The Chancellor announced measures to support businesses with Government-backed loans amounting to £330 billion of guarantees.

The Chancellor announced that a lending facility will be set up with the Bank of England to issue commercial paper, aiming to support liquidity among larger firms, and that funding for the Coronavirus Business Interruption Loan Scheme, which had been announced in the Budget, will be extended from £1 billion to £5 billion to support SMEs. The Government plans to engage with the industry to identify other opportunities for help businesses, which may include regulatory forbearance. The Chancellor intends to set out the next stage of the response to COVID-19 in the coming days.

In light of the economic uncertainty caused by COVID-19 which will almost certainly impact economic growth, there may be concerns within HMT that the proposed levels of public spending will create uncomfortable levels of public debt. But following the Conservatives' emphatic election victory, this was always going to be a Budget in which the Government would seek to demonstrate its intention to deliver on its manifesto promises to level up and unleash Britain's potential – to "get it done".

Energy and environment

With the UK due to host the COP26 UN climate summit in November this year, the Government intends to take action to decarbonise the economy and protect the UK's natural habitats, to ensure that the UK is ready for the challenges and is able to seize the opportunities in the green markets.

The Government will introduce measures aimed at increasing the UK's use of clean energy in order to reduce carbon emissions and put the UK at the forefront of new innovative industries. The Budget announced a Carbon Capture and Storage (CCS) Infrastructure Fund of at least £80 million to establish CCS in at least two UK sites, one by the mid-2020s, a second by 2030. To encourage more environmentally-friendly ways of heating homes and other buildings, the Government will introduce a Green Gas Levy to help fund the use of greener

1 HM Treasury, Budget 2020:Delivering on our promises to the British people (HC 121, March 2020)

fuels and will consult on introducing levy-funded support for biomethane production. The Government will also increase the Climate Change Levy that businesses pay on gas in 2022-23 and 2022-24 (whilst freezing the rate on electricity), and reopen and extend the Climate Change Agreement scheme by two years.

The Budget also announced that the Government will consult on introducing a Low Carbon Heat Support Scheme from April 2022 – a new grant scheme to help households and small businesses invest in heat pumps and biomass boilers, backed by £100 million of new funding.

Concerning the Renewable Heat Incentive (RHI), the Government intends to extend the Domestic RHI in Great Britain until March 31, 2022. It will also introduce a new allocation of flexible tariff guarantees to the Non-Domestic RHI in Great Britain in March 2021, aiming to provide investment certainty for the larger and more cost-effective renewable heat projects.

In order to support drivers to move away from polluting vehicles, the Budget announced investment in electric vehicle charging infrastructure, which will ensure that drivers are never more than 30 miles from a rapid charging station, provides £532 million for consumer incentives for ultra-low emission vehicles, and reduces taxes on zero emission vehicles.

Financial services

The Chancellor announced a number of financial services initiatives that will be introduced over the course of the year. The Budget confirmed that HMT will publish a white paper on financial services in the Spring of 2020 to set out its vision for the future of the UK financial sector. The Chancellor set out plans for the introduction of the Financial Services Bill (which had been announced in the December 2019 Queen's Speech), a Reforming Regulation Initiative, and a review of the UK FinTech sector. The Government will also establish an industry working group on the future of VAT and financial services.

In advance of the introduction of the Financial Services Bill, HMT has launched its consultation on the overseas funds regime (OFR) and marketing of funds[2]. The consultation contains proposals for a new process to allow investment funds that are domiciled overseas to be marketed and sold to UK investors. The proposed OFR will be based on the principle of equivalence and will introduce two new regimes for retail investment funds and money market funds. Amendments are envisaged to section 272 of the Financial Services and Markets Act 2000 (FSMA), which sets out the UK framework for individually recognised overseas schemes[3].

The Government's approach may be viewed as an attempt to internationalise the UK funds industry following the loss of EU passporting, by introducing measures to liberalise market access for overseas funds and in turn obtain mutual market access for UK funds. It is hoped that this initiative will result in a more dynamic and competitive funds market in which investors have a greater level of choice.

Alongside the Budget, HMT published a Policy Statement on Prudential standards in the Financial Services Bill confirming that the EU Capital Requirements Regulation II and EU Investment Firm Regulation and Directive (IFR/IFD), which comes into effect after the end of the transition period for EU withdrawal, will be implemented into UK law[4]. The implementation of the IFR/IFD regime recognises that the UK played an instrumental role in its introduction at EU level. Indeed, from the very beginning of the initiative, the Financial Conduct Authority (FCA) was at the forefront of the development of the IFR/IFD regime and chaired the working group of national competent authorities at the European Banking Authority (EBA), which inputted into the EBA's technical advice to the European Commission. As announced in the December 2019 Queen's Speech, the Policy Statement also confirms that the Financial Services Bill will implement the December 2017 finalised Basel III standards, which will be the UK's first implementation of international banking standards outside of the EU.

Although the clarifications made in the Policy Statement will be welcomed by the industry, questions remain as to whether the UK will implement other "in-flight" EU legislation (legislative files that were under review whilst the UK was an EU Member State but will not apply until after the transition period). The Financial Services (Implementation of Legislation) Bill, which was introduced in the last Parliament but did not receive Royal Assent, had provided a statutory mechanism for transposing in-flight EU financial services legislation including files pertaining to sustainable finance, covered bonds and the cross-border distribution of collective investment funds. It seems unlikely that the UK will opt to transpose the legislation on cross-border distribution of collective funds now that the Government is moving ahead with the OFR (see above), which will address similar issues, and that legislation aims to improve fund distribution across EU Member States.

HMT has also published the formal response to its call for evidence on regulatory coordination which it had launched in July 2019[5]. The response provides an indication of HMT's approach on coordination of regulators on regulatory interventions and on improvements to their coordination on authorisation, supervision and enforcement.

2 HM Treasury, Overseas funds regime: A consultation (March 2020)
3 Financial Services and Markets Act 2000, s. 272
4 HM Treasury, Prudential standards in the Financial Services Bill: Policy Statement (March 2020)
5 HM Treasury, Financial Services Future Regulatory Framework Review: Response to the Call for Evidence on Regulation Coordination (March 2020)

The UK regulators plan to launch a Regulatory Initiatives Grid in Q3 2020 which will provide a two-year schedule of major upcoming regulatory initiatives affecting the financial services sector. It has been a common industry concern that the pace of regulatory change has created a high administrative burden, and the Grid may help ameliorate this problem by enabling better planning. However, ultimately this issue can only be resolved by ensuring that regulatory change is undertaken at an appropriate pace and by setting implementation deadlines which take into account the overall regulatory agenda.

HMT also highlights that the FCA and Prudential Regulation Authority are in the course of developing a more detailed data-sharing agreement, and that HMT itself is considering amending the statutory framework for information-sharing between regulators.

Transport and infrastructure

The Chancellor made a number of important announcements on investment in transport and infrastructure, aiming to deliver on Conservative manifesto pledges for the 2019 General Election. It is a central part of the Government's agenda to "level up" across the UK by raising productivity and growth in all of the UK's nations and regions. As such, the Chancellor announced that a total of £640 billion of gross capital investment will be provided for roads, railways, communications, schools, hospitals and power networks across the UK by 2024-25.

Investing in the road system forms an important part of the Government's infrastructure agenda. The Government plans to undertake large-scale investment in England's motorways and major A roads through the second Road Investment Strategy (RIS2), which will spend over £27 billion between 2020 and 2025. The RIS2 will be delivered alongside the Government's plans for decarbonising the transport sector. It is interesting that the Government has prioritised road transport while also emphasising the need to reduce the UK's carbon emissions, given that cars remain responsible for a significant proportion domestic carbon emissions. The Government's objective of facilitating the shift towards electric vehicles (see above) will therefore be vital to ensure that continued support for road transport does not compromise its broader environmental agenda.

The Budget announced major investments in the UK railway system. Following on from its decision to complete the High Speed 2 (HS2) project last month, the Government has continued to show its commitment to the rail sector with announcements to improve the rail network in the Midlands and West Yorkshire in order to deliver on its manifesto pledges in the 2019 General Election. The Government plans to invest £20 million to develop the Midlands Rail Hub, progressing plans for a major programme of improvements to rail services across these regions. In addition, as part of its devolution deal for West Yorkshire, the Government is providing up to £500,000 to support Bradford in its regeneration and development plans to increase the benefits of potential Northern Powerhouse Rail connections. It should be noted that, before the Budget, the Government had reintroduced the High Speed Rail (West Midlands - Crewe) Bill to Parliament on March 3, in order to move forward with the Birmingham to Crew (Phase 2a) part of the project[6]. The Bill had fallen when Parliament was dissolved for the 2019 General Election, but both Houses have since passed "revival motions" allowing the Bill to continue its progress and is deemed to have passed through all the stages through which it had passed previously.

The Government intends to publish a National Infrastructure Strategy (NIS) later in the spring, which will set out plans for a "once-in-a-generation" transformation of the UK's economic infrastructure. The Comprehensive Spending Review (CSR) 2020, to be concluded in July, will provide full departmental spending plans. The CSR will prioritise improving public services, levelling up economic opportunity across all nations and regions, strengthening the UK's place in the world and supporting the Government's ambitions to reach net zero carbon emissions by 2050.

In addition, the Government will take action to review the Green Book, which sets out how decisions on major investment programmes are appraised in order to make sure that Government investment spreads opportunity across the UK.

Technology and innovation

The Budget set out plans to increase public research and development (R&D) investment to £22 billion per year by 2024-25. The Government will invest in people, ideas and industries, aiming to cement the UK's world-leading position in science and technologies ranging from nuclear fusion to electric vehicles and life sciences. This investment will take direct support for R&D to 0.8 per cent of GDP and place the UK in the top quarter of OECD countries. In order to attract investment from the private sector for R&D, the Government will increase the rate of R&D tax credits and consult on widening the definition of qualifying expenditure to include data and cloud computing.

With regard to life sciences, the Budget announced that the Government will provide the British Business Bank with additional resources to launch a £200 million investment programme which is expected to enable £600 million of investment.

The Government will implement the recommendations of the Furman Review of digital competition, which was published on March 13, 2019[7].

6 **High Speed Rail (West Midlands - Crewe) Bill 2017-19 to 2019-21**
7 **Digital Competition Expert Panel, Unlocking digital competition: Report of the Digital Competition Expect Panel (March 2019)**

The Furman Review had concluded that the increasing dominance of a small number of companies is limiting competition and innovation, and results in less consumer choice. The recommendations included establishing a Digital Markets Unit to oversee competition in the market, reassessing the Competition and Markets Authority's (CMA) Merger Assessment Guidelines, developing more effective anti-competition tools for the digital markets, and monitoring the use of algorithms in setting personalised pricing and ensuring that consumers are not subject to anti-competitive activities. The Budget announced the Government's intention to consult on the recommendations in due course.

Regional development and devolution

The Budget announced various measures aimed at developing the UK's towns and cities. The Government will undertake investment in urban transport, starting by confirming allocations of over £1 billion from the Transforming Cities Fund. This will deliver a range of local transport schemes, including a new Central Park Bridge in Plymouth, a significant increase in the capacity of the Tyne and Wear Metro, and new cycleways in Bournemouth, Christchurch and Poole. In line with the Government's priorities, this will also include around £800 million for bus and cycling infrastructure.

The Government has also agreed a devolution deal with West Yorkshire to establish a Mayoral Combined Authority with a directly-elected Mayor from May 2021.
This will provide £1.1 billion of investment for the area over 30 years, as well as devolving significant new decision-making powers on transport, planning and skills. It also underpins the agreement of a long-term intra-city transport settlement for the region starting in 2022-23. These plans aim to deliver on the Conservatives' manifesto pledge to devolve power to people and places across the UK, so that every part of the country has the power to shape its own destiny. The Government also intends to publish an English Devolution White Paper in the summer, setting out how it intends to meet its ambition for full devolution across England.

Building on the Transforming Cities Fund, the Government will provide £4.2 billion from 2022-23 for five-year funding settlements for eight Mayoral Combined Authorities (in West Yorkshire, Greater Manchester, West Midlands, Liverpool City Region, Tyne and Wear, West of England, Sheffield City Region and Tees Valley). While it will be for elected Mayors to put forward ambitious plans, the Government would welcome the opportunity to support a range of schemes, such as the renewal of the Sheffield Supertram, the development of a modern, low-carbon metro network for West Yorkshire and tram-train pilots in Greater Manchester.

Contacts

Glenn Hall
Head Government Relations and Public Policy; Partner
Tel +44 20 7444 3613
glenn.hall@nortonrosefulbright.com

Daniel Nevzat
Government Relations Manager
Tel +44 20 7444 3326
daniel.nevzat@nortonrosefulbright.com