



BUDGET 2023

A Budget to frame #GE2024

10 March 2023

DRD PARTNERSHIP

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What can the Budget tell us about the next General Election?

The 2023 Budget is undoubtedly a key milestone on the road to the next General Election.

For the first time Rishi Sunak and Keir Starmer will have the opportunity to set out their competing visions for the country head-to-head. It will be a major test of Rishi's control over the Conservatives' policy direction and a display of Labour's vision under Keir Starmer.

Against a backdrop of weak economic performance and damaging global headwinds due to the continued inflationary spike caused by the Ukraine War the Government does not have the funds for a revolutionary Budget.

Instead, we can expect a Budget that focusses on the balance sheets of households, businesses and the Treasury.

The cost-of-living crisis is hitting families, businesses are not in the best position to invest and may require write-offs to do so, and the Treasury needs to raise revenue to fund the immense spending of recent years.

While there is always a "rabbit out of the hat moment" at a UK Budget we can assume this year the magic trick will be more sleight of hand than a grand spectacle.



However, by looking through what the opinion formers in think tanks and industry are looking to see in the Budget, we can predict what the election offer may look like from the parties.

Conservative Party: What are the Opinion-Shapers saying?

One Nation and Moderates

Conservatives who style themselves as “pragmatic”. While they favour lower taxes and less government intervention, they are willing to adopt these measures when the solution fits. They currently make up the governing group in the Party and many former advisers from the moderate think tanks have taken positions in the Government.

Onward

In their **Budget Countdown** Onward have focussed on childcare reforms including a new childcare credit system with front-loaded payments to support early years care, flexible shared parental leave and policies to increase the early years workforce.

Alongside this they remain focussed on the Levelling Up Agenda with calls to enhance devolution of tax and spend powers to regions in order to unlock local opportunities in growth. Former Director of Onward, Will Tanner, is the Head of Policy at Number 10.

Bright Blue

In conversation with DRD Bright Blue also emphasised childcare and tax reform as a Budget priority. Also calling for a front-loaded approach to childcare benefits, Bright Blue called for a student loan style scheme for parents seeking childcare support and expanding the Early Years Free Entitlement.

On the taxation side, their priorities included reducing the rate of National Insurance Contributions but expanding the scope of their collection to pensions, dividends and rental income; alongside narrowing the rates between capital gains and income taxes; and full expensing of new capital investment to support business investment.

Centre for Social Justice

The CSJ highlighted **welfare reform** in their conversation with DRD, stressing the need for a revamped Universal Support; a social worker scheme to support the economically inactive back into work. This was combined with **another call for greater devolution** as a means to tailor support schemes to the needs of individual areas.

Thatcherites and Libertarians

Enthusiasts of shrinking the state, low regulation and tight spending, this faction of the party has been focussed on “growth” for some time, but the events of last September have left them diminished in the current administration.

Centre for Policy Studies

While the CPS has not published a Budget wish list, **recent articles** on their website stress their preference for reductions to the tax burden and increased investment incentives through tax write-offs and reformed business rates.



Institute of Economic Affairs

The IEA have made clear to DRD that their priority is to see lower taxation and regulation, offset by reduced spending.

Simplifying the tax code and preventing the rise in Corporation Tax by scrapping HS2, selling underutilised assets and managing the Government headcount is their main fiscal intervention. Simultaneously, the IEA stress the need for deregulation across sectors of the economy to drive business activity and growth.

Adam Smith Institute

The ASI has also not published a Pre-Budget wish list; however, recent **articles** and long running campaigns on **economic policy** would indicate that childcare reforms, reductions in tax and deregulation are a priority.

Specifically, reforming childcare payments by replacing the current scheme with direct cash payments and dropping some of the current scheme's restrictions, uncapping the annual investment allowance for capital expenditure, funding lifelong learning schemes and reducing restrictions on high skilled visas.

What do these asks tell us about the Conservative Party in the lead up to the election?

Perhaps the biggest take away here is the scale of asks from opinion formers and converging opinions on the issues the party needs to address.

In previous years, the Pre-Budget period has been marked by ideological battles within the conservative spectrum over the very nature of Britain and its economy. While that is playing out a little, the suggestions being put forward by the conservative think tank world are greatly reduced in scale compared to previous years - where different factions demanded wholesale change in economic policy.

Furthermore, the above recap of priority proposals also makes clear that when it comes to key asks there is convergence. Reforms to childcare and tax related investment allowances are being asked for across the conservative spectrum, it would be surprising if they were not featured in the Budget.

In addition, real consensus has appeared across conservative opinion formers that high levels of economically inactive people is an issue that must be urgently addressed.

This indicates a stark change in the demeanour of the debate within the party. Instead of a clash of ideologies and demands for total structural change from each end of the spectrum, the party at large seem to be settling on a debate over the best way to fix a mutually agreed problem. A gentle truce across the conservative spectrum appears to be forming.

While there are disagreements about regulation, especially in areas such as planning and infrastructure, these arguments have been more technical than ideological.

This may be a response to last September's Budget where an over-ambitious structural reform sank the ship for an entire faction of the party, or it could be a recognition from think tank world that the economic situation is precarious and there is little room for manoeuvre.



Either way, it indicates that the Conservative Party at large may be more focussed on tackling individual issues in the lead up to the next General Election that pursuing another ideological reform. It may even mean that Rishi Sunak can unite the party on a platform of detail -orientated competence.

With the Conservative Party looking for solutions to low growth and investment now may be the first good time in a while for those in industry who create solutions to get their voice heard.

Labour and the Budget: a focus on stability

The driving focus of the Labour Party on Budget Day will be to press the case for rebuilding the UK's economic credibility.

They will argue that the Conservatives have damaged businesses and consumer confidence alike, and naturally that Labour is the only party who can be trusted with the economy.

Everything in Labour's response to the Budget, and any alternatives the party offers, should be viewed through the prism of an urgent unmistakable need to rebuild stability, certainty, and security in the economy.

Tom Collidge, Head of Policy and Communicaitons at Progressive Britain told DRD...

"Rachel Reeves and Labour should point out that, if the pre-briefing is to be believed, this is a 'nothingy' budget - as directionless as the government delivering it. But this is also a chance to shift from criticism to alternative."

While stability seems to be the watch word for Labour's efforts to contrast themselves with last year's chaotic 'Mini-Budget', the party will need to produce some more detailed and more ambitious plans.



On 23 February, Keir Starmer and Rachel Reeves launched the first of their '**Five Missions for a Better Britain**', which are to be announced individually over the coming months.

It is no coincidence that the first mission was heavily focused on the economy, specifically on securing the highest level of sustained growth in the G7, with good jobs and productivity growth in every part of the UK.

However, while signalling ambition, Labour have yet to provide policy detail or costed measures. In this regard, Labour retains one of the only luxuries of being in opposition.

Industrial Strategy: Labour's General Election offer

Labour also continues to follow a much more detailed industrial strategy that was published last September, this will form the fundamental building block of their response to the Budget and their offer to the country.

The very act of publishing this alone is significant, given that the Government has neglected to publish an industrial strategy of their own, as the Labour front bench is consistently keen to point out.

In conversation with DRD Tom Collidge from Progressive Britain again told DRD...

“Yes Labour grasps the depth of the problem but it also has serious plans to address it. Central to these are the industrial strategy which will propose a new relationship between government, the private sector and the public. Labour must set out its vision for state/private partnerships and how they will bring a more prosperous and fairer economy for everyone.”

Labour will want to make reference to Industrial Strategy in their Budget response, likely calling for measures on their identified issues of net-zero, technological security and funding for social care.

On net-zero, the promise of decarbonising power generation by the end of the decade will be particularly pertinent to ongoing struggles to pay household energy bills, and to the UK's broader energy security. Labour MPs may want to make explicit reference to this promise should the Chancellor announce an **extension of the energy price guarantee** as many expect.

However, the mission to make the UK a green energy superpower will require substantial measures like overhauls to investment allowances, tax breaks, and green energy subsidies to rival those most recently offered by the US and EU. This may be raised in Labour's response to the Chancellor on Budget Day.

Furthermore, the consistent messaging around 'building a resilient economy' may result in Labour calling for more investment in the UK Semiconductor Industry due to its centrality to a UK industrial strategy and to technological security.

Labour are also likely to highlight the recent move of AstraZeneca to Ireland and the Collapse of Britishvolt to focus on the short sightedness of the Conservative Party and present the latest Conservative Budget as a continuation of instability.



This may result in Labour committing to certain tax incentives for investment that would not have been conceivable under recent iterations of the Labour Party, such as major write offs for capital investment, in order to win business applause in the post Budget media.

However, Starmer's insistence on resilience and stability through increased growth has been criticised by many on the left of the Party, who see it as too conservative. Starmer will need to consider how to keep these factions in labour placated as the party approaches power. Expecting comments and maybe even commitments on NHS Funding, Social Care and Schools will likely feature.

Fabian Society: the future of the Labour Party

The key group currently influencing internal Labour policy thinking is the Fabian Society.

A significant number of Shadow Cabinet members are Fabians themselves and the Society's input is getting more traction in the upper echelons of the party than in previous years.

At the Fabians' Annual Conference in January, attended by Shadow Chancellor and Fabian member Rachel Reeves, there was a concerted view that the Left's thinking on every policy issue, should be grounded in economic reality.

This is almost certainly with the aim of evoking memories of 1997, and shifting back to the economic centre in preparation for government. Market-led industrial strategy is the likely direction for the party heading into the next general election.

Andrew Harrop, General Secretary of the Fabian Society, has previously stated that the country needs *"a serious plan for growth which five Conservative prime ministers have failed to deliver"*, and called for *"new ideas to get more people working, more businesses investing and more trade with Europe."*

The focus on a pro-growth strategy has clearly been fed through to Labour policy makers, and remains at the top of the party's priority list.

Preparing for government

In conversation with Labour strategists and campaigners, it is clear that Wednesday's Budget and the launch schedule of the Five Missions are being lined up to contribute to a persistent drumbeat of policy announcements building to the general election.

Labour are trying to focus on everyday economic issues that matter most to people, particularly in 'Project Victory', their plan for the May local elections.

This is being viewed by party activists as a big opportunity to strike a hammer blow against the Tories, and to act as a trial run for a general election victory.

Labour believe that they can win if they keep the conversation rooted in issues like the cost of living, but they are acutely aware of the Conservative propensity to drag them 'off message'.

They will no doubt want to signal that their government will be a policy-rich, substantive alternative to the Conservatives.

The Budget may provide them with the avenue to do that, by signalling to businesses that they have the stable and well thought out plans on tax-breaks, investment and an industrial strategy that the Conservatives have not delivered.

As the Five Missions, currently high-level signposts, begin to translate into a more detailed policy agenda and eventually a manifesto, different think tanks and industry groups will have varying degrees of influence on how that agenda develops.

Political spectators should therefore pay close attention to them over the coming months and years.

How will industry respond to the Budget?

Craig Beaumont, Chief of External Affairs at the Federation of Small Businesses, told us that the Government is “*missing out the needs of 5.5 million small business owners*” and are calling on the Chancellor to...

“introduce measures which focus on growth, investment and labour market participation. As set out in FSB’s agenda for growth, our moves will see improvements on energy bills for those shortly to be affected on fixed contracts, a Help To Green scheme to boost investment in Net-zero, energy efficiency and decarbonisation, a tweak to Corporation Tax to shield small businesses, and a new version of Kickstart focused on those furthest from work with a health condition or disability.”

Kitty Ussher, Chief Economist of the IoD, told DRD they want to see “an urgent reversal of the planned cuts to the SME tax credit scheme which we worry will otherwise lead to less innovation”, and the Budget should...

“focus on addressing skills shortages across the UK economy, by providing tax credits for firms specifically investing in shortage areas, and allowing sole traders to deduct the costs of training in those areas. We also want to see Budget measures that use the corporation tax regime to incentivise the transition to net-zero, and to encourage investment more broadly, including making the capital expenditure super-deduction of 130% permanent”

In many ways these comments are in line with the expressed priorities of the thought leaders in both parties, increasing investment and solving labour market shortages.

With industry and politics seemingly aligned on the main issues the upcoming Budget will need to address, this will be a key moment in retaining business confidence.

If the Conservative Party fail to meet expectations, it would likely be the last straw for industry which has gone through a difficult time over the last few years due to political chaos. Therefore, the Conservative would do well to deliver a Budget that works, or Labour are likely to take the business support going into the next General Election.



About DRD

Founded in 2012, DRD Partnership has made a rapid impact in applying proven expertise in managing reputational issues for client businesses and organisations across a wide range of domestic and international markets.

DRD Partnership is a strategic communications consultancy focused on building value for our clients and protecting their reputations at moments of challenge and change.

DRD helps clients develop a positive deal rationale that is in line with current Whitehall and Westminster priorities. It also provides strategic public affairs and campaign support to help you get your deal cleared.

Our approach combines the deep experience of our senior partner team with rigorous analysis and interrogation of issues. This is to ensure that our programmes deliver meaningful impact.

DRD's partners have held senior roles in government, financial institutions, the law, international corporations, charities and leading public affairs consultancies. By combining our insight into relevant institutions with our experience of engaging stakeholders and delivering campaigns in multiple markets, we ensure that, when clients have only one chance to get things right, we are consistently able to meet and exceed their expectations.

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