

Sunak outlines plans for 'new economy' after COVID – but issues warnings

Chancellor Rishi Sunak has set out a budget for a “new economy” after the COVID crisis with a £150bn increase in government spending – but he also warned of “challenging” months ahead due to the continuing pandemic and rising inflation.

In his statement to the House of Commons, Mr Sunak promised “the largest increase this century” in total spending across government departments.

The £150bn increase would include “a real terms rise in overall spending for every single department” and also saw Mr Sunak confirm money for the NHS, prisons, local transport and housing.



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However, the chancellor also used his budget to warn of the "challenging backdrop of rising inflation" as he promised to provide "help for working families with the cost of living".

Having previously removed a pandemic-inspired £20 per week uplift to Universal Credit, Mr Sunak said he would now be lowering the benefits taper rate from 63% to 55%.

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This means, for every extra £1 someone earns, their Universal Credit will be reduced by 55p rather than 63p.

Mr Sunak claimed the move, which will be implemented no later

than 1 December, would see nearly two million families keep, on average, an extra £1,000 a year.

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In a series of tax changes, Mr Sunak announced a new post-Brexit system of alcohol duties, including a lower rate of tax on draught beer and cider to boost pubs.

He also sought to support high streets across the country with a new year-long 50% business rates discount for businesses in the retail, hospitality and leisure sectors.

But, in a move that might worry environmentalists and in the week before the COP26 climate change summit in Glasgow, the chancellor revealed a new lower rate of Air Passenger Duty for domestic flights.

As he outlined the current state of the economy, Mr Sunak said he was keeping a cash reserve to “protect ourselves against economic risks”.

“That is the responsible decision at a time of increasing global economic uncertainty, when our public finances are twice as sensitive to changes in interest rates as they were before the pandemic and six times as sensitive as they were before the financial crisis,” the chancellor said.

“Just a one percentage point increase in inflation and interest rates would cost us around £23bn.”

Mr Sunak set out new government spending rules said he would keep the public finances “on the path of discipline and responsibility” with his new rules.

These include underlying public sector net debt – excluding the impact of the Bank of England – falling as a percentage of GDP.

And Mr Sunak also said that, in normal times, the government should only borrow to invest in “future growth and prosperity”.

“Everyday spending must be paid for through taxation,” the chancellor said, as he set out action to pay back the multi-

billion pound spending during the COVID crisis.

Mr Sunak said his budget “does not draw a line under COVID” as he warned of “challenging months ahead” and encouraged “everyone eligible to get their booster jabs right away”.

But the chancellor added his budget “does begin the work of preparing for a new economy” after the coronavirus crisis.

The OBR now expects the UK’s economic recovery from the COVID pandemic to be “quicker” than previously thought, Mr Sunak told MPs, with growth revised up from 4% to 6.5% for this year.

In 2022, the OBR expects the UK economy to grow by 6% and 2.1%, 1.3% and 1.6% over the following three years.

And they have also revised down their estimates of long-term “scarring” to the UK economy of the COVID crisis.

The chancellor also told the Commons that the OBR expects a lesser peak of unemployment, of 5.2%, which means “over two million fewer people out of work than previously feared”.

Wednesday’s statement was the third budget delivered by Mr Sunak as chancellor and the second of this year, following his statement in March.

Labour leader Sir Keir Starmer was unable to respond to Mr Sunak’s budget in the House of Commons after earlier testing positive for COVID.