The Chancellor's Winter Economy Plan

The latest pandemic support measures are much less generous than before.

As the country braced for dealing with further localized outbreaks of Covid-19, the Chancellor made an early autumn appearance before the House of Commons to announce his 'Winter Economy Plan'. He announced new employment support and amendments to existing schemes.

Job Support Scheme (JSS)

The JSS is the next stage of the furlough scheme (strictly the Coronavirus Job Retention Scheme (CJRS)), which comes to an end on 31 October. The JSS, which will run until 30 April 2021, is aimed primarily at small and medium-sized employers and will only apply to employees who work at least one third of their normal hours. For the hours that are *not* worked, the government and the employer will each pay one third of lost pay. The net results in terms of employee income and employer cost are shown in the table.

Hours Worked As % Normal Hours	Employee Income Earned % Full Pay	Employer Non-working Contribution % Full Pay	Government Non-working Contribution* % Full Pay	Total Employee Income % Full Pay	Total Employer Outlay % Full Pay
25.00	25.00	0.00	0.00	25.00	25.00
33.33	33.33	22.22	22.22	77.77	55.55
50.00	50.00	16.67	16.67	83.34	66.67
75.00	75.00	8.33	8.33	91.66	83.33
100.00	100.00	–	–	100.00	100.00

*Capped at £697.92 per month.

Payments under the JSS will not affect an employer's entitlement to the £1,000 Job Retention Bonus.

Self-Employed Income Support Scheme (SEISS)

The existing scheme has been restructured and extended to April 2021. Only those already eligible will be entitled to claim. The first grant, covering the three months to 31 January 2021, will cover 20% of average monthly trading profits and is capped at £1,875. The terms of the grant for the next three months will be set 'in due course'.

Both the JSS and revised SEISS are considerably less generous than the existing CJRS and SEISS, which have so far (to 20 September) cost the Treasury over £52 billion. This cut to support is understandable from the government's financial viewpoint, but it is also a reminder of the importance that your personal financial planning makes provision for an adequate cash reserve.

Market update: a quieter quarter

The third quarter of 2020 saw share markets calmer than in the previous two.

Index	2020 Q3 Change
FTSE 100	–4.9%
FTSE All-Share	–3.8%
Dow Jones Industrial	+8.0%
Standard & Poor's 500	+8.5%
Nikkei 225	+4.0%
Euro Stoxx 50 (€)	–1.1%
Shanghai Composite	+7.8%
MSCI Emerging Markets (£)	+3.9%

For many, 2020 has not been a year they will want to remember. For investors, the first two quarters were a whiplash experience. For about a month from mid-February, Covid-19 pushed share markets down with a brutal abruptness. By the time March came to an end, there was a consensus that, as often happens, the gloom had gone too far. As a result, the second quarter produced rises across the major markets. In the summer, it looked like the worst of the pandemic could be over and the forecasts of a V-shaped recovery would prove correct.

The third quarter, and in particular September, provided a different story. The threat of a second wave of Covid-19 emerged, while two other longstanding 'known unknowns' – the US presidential election and the end of the Brexit transition period – came closer into sight. Central banks' talk of multi-year zero or sub-zero interest rates did not encourage investors, perhaps suspicious that 12 years after the global financial crisis, the rate setters had finally run out of monetary ammunition.

The UK stock market's third quarter was weaker than in other major markets. In global terms, it is arguable that the UK looks cheap – the historic price-earnings ratio for the UK market is around 21 compared with 29 in the US. However, across the Atlantic, the main market index, the S&P 500, rose by 8% in the third quarter against a fall in the FTSE 100 of 5%. Once more, the US market has been driven by the five technology giants – Microsoft, Apple, Amazon, Facebook and Alphabet (aka Google) – which account for 1% of the number of companies in the S&P 500 Index, but almost 23% of the by value.

The third quarter was generally more rewarding for investors in overseas markets. The fourth quarter's impending US election and Brexit finale looks set to create a dramatic end to a dramatic year. What 2020 has proved yet again is that market timing is virtually impossible, so if you think now is the time to act – whether buying or selling – make sure to take advice before pulling the trigger.

Another Autumn Budget deferred

After heavy hinting from the Treasury for some weeks, the expected Autumn Budget has been pushed into spring 2021.

Since the March Budget and through to August, the expectation was that the Chancellor, Rishi Sunak, would introduce his second Budget this autumn. Such timing would have restored the cycle of a Spring Statement followed by an Autumn Budget after it broke down last year in the lead up to the general election.

With intense speculation around tax rises to pay for the raft of Covid-19 support measures, the first serious clue to a possible Autumn Budget delay emerged on 8 September, when the Office of Tax Simplification (OTS) slipped out a statement about its review of capital gains tax (CGT), which had been commissioned by the Chancellor in July. The statement announced the response deadline on the technical part of the OTS consultation would be deferred by four weeks, to 9 November. This was a surprising move as the OTS CGT report was expected to feed into the Autumn Budget.

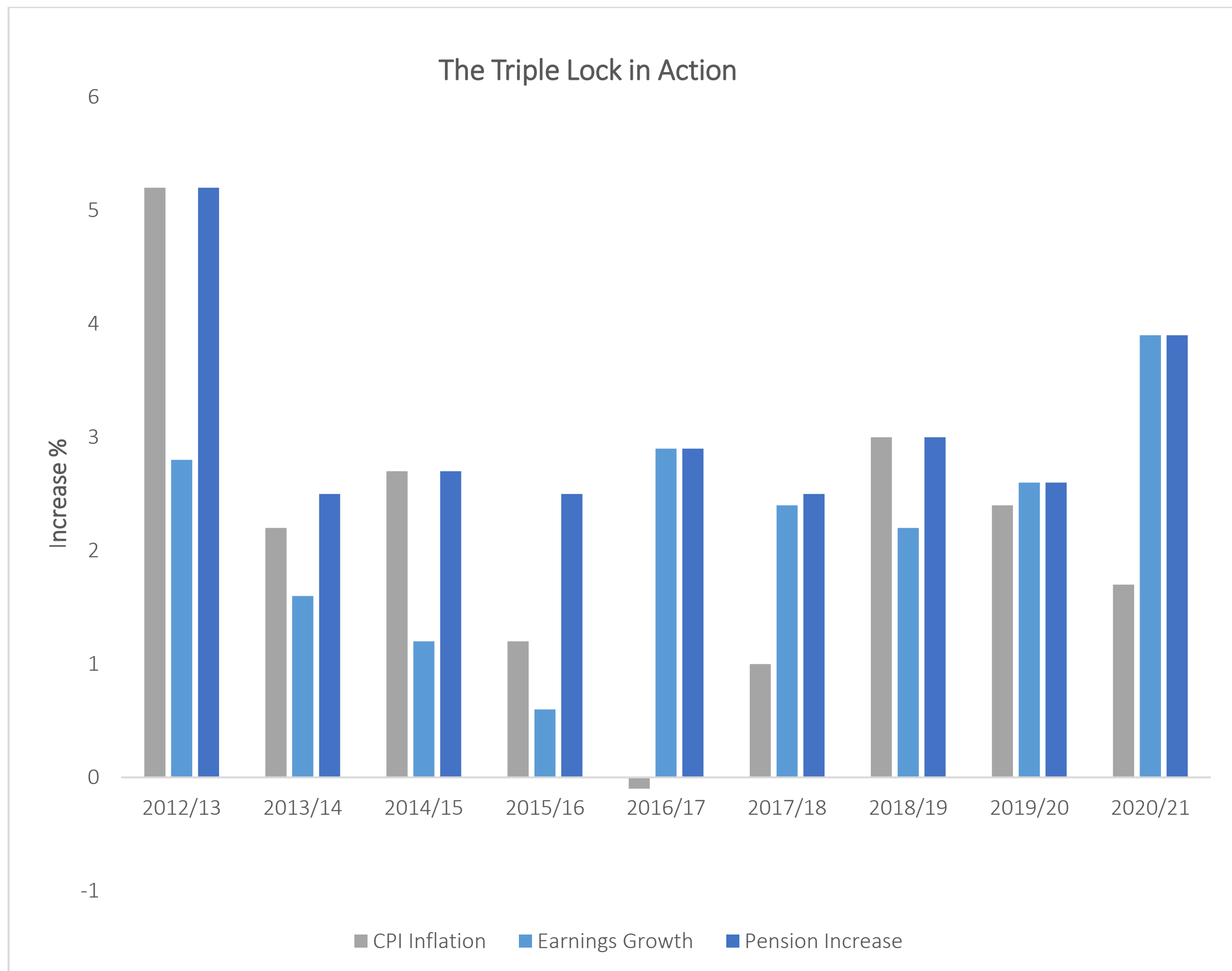
Soon after, the Chancellor himself issued a brief written statement saying he had asked the Office for Budget Responsibility (OBR) to prepare an economic and fiscal forecast "to be published in mid-to-late November". The vagueness surrounding the timing was evident, as the OBR report is produced alongside the Budget and incorporates costings for Budget measures.

What had started to look inevitable was confirmed on 24 September when the Treasury cancelled the Autumn Budget. The Chancellor will still have a set piece event towards the end of the year; not only is there the OBR report to present, but Mr Sunak must also publish a Spending Review. The latter was also a victim of the general election and ought to have been produced a year ago to cover the three years from April 2020. Instead, the then Chancellor published a one-year Spending Round. Given the pandemic uncertainties, it is likely that Mr Sunak will take a similar short-term view, rather than introduce a multi-year plan.

The postponement of the Autumn Budget does not mean the spectre of tax increases has also evaporated. The level of government borrowing (£174 billion in the first five months of 2020/21) makes tax rises virtually inevitable. However, the Chancellor has afforded you more time to plan and take action in areas such as CGT and pension contributions.

Triple lock survives – for now

The government has acted to ensure state pension increases can happen next April.



Source: *House of Commons Briefing Paper CBP-08712*.

The Basic State Pension (BSP) and the New State Pension (NSP) – for anyone who reached State Pension Age after 5 April 2016 – are both subject to the 'Triple Lock' measure. This means that every April these two pensions increase by the greater of:

1) 2.5%;
2) Consumer price index (CPI) inflation to September of the previous year; and
3) Average earnings growth based on the annual change in earnings in the period May–July of the previous year.

The Triple Lock is a feature that the main political parties pledged to maintain in their 2019 election manifestos, but despite political promises, the Triple Lock has no legal standing. The law governing increases to the BSP and NSP is based on earnings growth. Earnings growth applies to the April 2020 increases (of 3.9%), but in years when it does not take the top slot, the government overrides the statutory rules.

In September, the Office for National Statistics (ONS) published the Triple Lock earnings growth data, showing that year on year, earnings had *fallen* by 1%. The drop presented a problem for the Department for Work and Pensions (DWP), as it viewed the legislation as saying that if earnings growth was below 0%, pension payments *must* be frozen, with no scope for discretion. In response, the DWP rapidly put a Bill into Parliament to amend the law and allow the Triple Lock measure to continue.

Curiously, the Bill only applies for 2021 and does no more than allow the Secretary of State to choose the increase level – there is no reference to the Triple Lock. In practice, the BSP and NSP should rise by 2.5%, as CPI inflation to September will be lower.

The 2021/22 NSP will therefore be £179.60 a week (£9,339 a year), a timely reminder that for all the legislative gaming of the numbers, state provision is far from adequate for a comfortable retirement.

National Savings wields the axe

National Savings rate to drop sharply from 24 November.

At times, National Savings & Investments (NS&I) looks like a relic. Its role in raising money for the government has seemed an increasing anachronism for three main reasons:

- The amount NS&I raises each year is but a small part of the government's total borrowing. For 2020/21, NS&I's fundraising target is £35 billon (± £5 billion), but on current estimates, the government will need to borrow more than ten times as much.
- Rather than selling NS&I products, the government can raise billions by selling government bonds (gilts) with much less administration at significantly lower interest rates. At the time of writing, gilt yields were *negative* for terms of up to six years.
- On the rare occasions when NS&I rates are competitive, it can distort the savings market, prompting criticism from the building societies and banks with which it competes for retail deposits.

In mid-February, NS&I announced that it would be cutting interest rates across a range of plans from 1 May. Two months later, NS&I changed its mind and announced in a press release under the headline "NS&I supports savers in this unprecedented time", that it was dropping the planned changes to variable rate products. All then went quiet, leaving NS&I with a range of league-topping interest rates. Between April and June, nearly £20 billion flowed into its coffers.

On 21 September, NS&I had a change of heart, deciding that reductions were necessary to "ensure NS&I's interest rates are aligned appropriately against those of competitors". The cuts, which generally take effect from 24 November, were dramatic, as the table shows.

Product	Current rate	New Rate
Direct Saver	1.00% gross/AER	0.15% gross/AER
Income Bonds	1.15% gross/1.16% AER	0.01% gross/AER
Investment A/C	0.80% gross/AER	0.01% gross/AER
Direct ISA	0.90% gross/AER	0.10% gross/AER
Junior ISA	3.25% gross/AER	1.50% gross/AER
Premium Bonds*	1.40% 24,500:1 monthly odds	1.00% 34,500:1 monthly odds

* From December prize draw.

Such microscopic rates will take NS&I to the bottom of the league tables. If your income will be hurt by the NS&I cuts, make sure you consider all of the options before moving your money. With the best available rate just 1.6% – for a *five-year* bond – at the time of writing, now could be the time to talk to us about your income options beyond deposit investments.