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Group of Companies Limited

SPRING STATEMENT

MARCH 2018 OVERVIEW

Introduction

In 2016 Britain voted to leave the EU and new Prime Minister Theresa May invited George Osborne to consider an alternative career and replaced him as Chancellor with Philip Hammond, the MP for Runnymede and Weybridge nicknamed 'Spreadsheet Phil' by his Commons colleagues.

Five months later, Hammond stood up to deliver his first Autumn Statement and immediately announced it would be his last. "No other major economy," he said, "has two financial statements in a year." Thus the Budget was moved to Autumn and, from 2018, the Spring Budget would become the Spring Statement.

And here we are… Eighteen months on from Mr. Hammond's first announcement, the UK continues along its road towards Brexit and the Chancellor – who seems secure in his job for now – continues to be a man who will "choose our course and stick to it" (or words to that effect).

The Economic Background

Expectations for the speech were not high among journalists and commentators: 'Don't expect Hammond to pull a rabbit – or even a March hare – out of the hat' was the general consensus.

Nevertheless, the Chancellor would have some good news on public finances to deliver in his speech. Borrowing has reduced significantly and was expected to be around £45bn for this year as opposed to the forecast £50bn, with day-to-day public spending finally in surplus for the first time since 2002/2003. However, the UK's total national debt currently stands at £1.8 trillion, equal to 86% of the country's annual economic output.

Would this mean the Chancellor announcing an end to austerity? After all, some local councils are claiming that they are effectively bankrupt and the NHS has seen spending increase by just 1.1% in real terms since 2010. But the Chancellor will not be changing course: speaking on the BBC's Andrew Marr Show on the Sunday before the Statement, he said: "This (austerity) isn't about some ideological issue. It's about making sure we have the capacity to respond to any future shock in the economy."

This view was backed up by Liz Truss, Chief Secretary to the Treasury, who wrote in The Times, "There will be no red box, no rabbits out of the hat and no tax changes. Our message is simple. Let's keep on course, keep our economy strong and focus on the opportunities ahead of us. We want to keep taxes low so that the weekly budget goes further."

With the OECD predicting that the UK economy would grow at the slowest pace of all the G20 countries this year, what could we look forward to in the speech? The rumours suggested there would be more details of taxing the tech giants such as Facebook and Google, consultations on taxing and discouraging the sale of single-use plastics and even the possibility of a tax on chewing gum to pay for cleaning up the mess it makes.

The Speech

As is now traditional, the Chancellor began his speech with a joke at the expense of Labour Shadow Chancellor, John McDonnell. “I won’t be producing a red book, Mr. Speaker,” he said. “But I can’t speak for the Shadow Chancellor,” – a reference to McDonnell brandishing ‘The Thoughts of Chairman Mao’ in the Commons chamber.

Even more traditionally, he spent the next few minutes outlining what had gone right as the Government, “made solid progress building an economy that works for everyone.” But eventually, the chamber ‘rapport’ was put aside and Philip Hammond turned to what he does best: reading out lists of figures…

The Numbers

The Chancellor began with the forecast growth figures for the UK economy, which the Office for Budget Responsibility (OBR) has increased for this year, now forecasting growth of 1.5% in 2018. That will be followed by growth of 1.3% in 2019 and 2020, then 1.4% in 2021 and 1.5% in 2022. These forecasts are up in the short term and down in the long term, presumably reflecting some uncertainty over the impact of Brexit.

Employment and Inflation

The Chancellor pointed out that the number in work had increased by 3 million since 2010, the equivalent of 1,000 people finding work every day. The unemployment rate is close to a 40 year low and the OBR is predicting that there will be 500,000 more people in work by 2022.

Equally importantly, it is expected that inflation will start to fall over the next 12 months, “closer to the target rate of 2%” which should see most working people start to enjoy real growth in their wages again.

Public Finances

“Borrowing has fallen by three-quarters since 2010,” said the Chancellor and – as we noted in the introduction – this means that the amount the Government spends on servicing the national debt has reduced significantly. The UK now borrows £1 in every £18 it spends, compared to £1 in every £4 in 2010. The Chancellor also confirmed that debt as a percentage of Gross Domestic Product will also fall, from 85.6% of GDP in 2017/2018 to 78.3% in 2021/22.

He confirmed that borrowing would be £45.2bn for this year, £4.7bn lower than had been forecast in the Autumn Budget. “And,” he announced proudly, “£108bn lower than in 2010.” Borrowing would be 2.2% of GDP this year and would gradually fall to 0.9% in 2022/2023.

Progress since the Autumn Budget of 2017

Despite it only being five months since the Autumn Budget, the Chancellor was keen to summarise a list of achievements. There was nothing new in this section: rather it was a re-statement of the commitments made in the Autumn and a confirmation – at least in the Chancellor's eyes – that the country is on track.

The Autumn Budget contained a pledge to increase the supply of homes to 300,000 a year by the mid-2020s, via an investment programme of £44bn over 5 years and the Chancellor confirmed that the Government was working with 44 areas throughout the UK to bring this about. In addition, London will receive a further £1.67bn to start building 27,000 affordable homes by 2021/22 and the Housing Growth Partnership, which provides additional finance for small builders, was more than doubled to £220 million.

To loud cheers from the backbenches behind him, Philip Hammond announced that an estimated 60,000 first time buyers had already benefited from the abolition of stamp duty announced in the Autumn Budget.

To some muted jeers, though – quite possibly from some of his own Eurosceptic backbenchers – the Chancellor said that "substantial progress" had been made in the Brexit talks. He looked forward to "another step forward" at the forthcoming EU summit and confirmed that the Treasury would be publishing information about how the initial £1.5bn of the £3bn set aside for Brexit planning would be allocated to Government departments.

Wages and Taxation

In the lead up to the speech, the Chancellor had worked hard to set expectations that there would be little by way of new tax or policy announcements. As it turned out, the Chancellor did mention some previously announced changes, but he was also true to his word when it came to brand new announcements or significant new initiatives.

What	The National Living Wage will rise to £7.83 per hour
When	From April 2018
Comment	All the other minimum rates will rise in line with the increase in the headline rate, with the youth rate seeing the largest increase for 10 years. In total, around 2 million people are expected to benefit from the increases.

What	The tax free personal allowance will increase to £11,850
When	From April 2018
Comment	This will mean that a typical taxpayer will be paying £1,075 less income tax than in 2010/11. The threshold for higher rate tax will also increase to £46,350 from April (or £43,431 in Scotland).

Business

What	The next revaluation of business rates will be brought forward
When	Moved forward to 2021, instead of next being revisited in 2022
Comment	This will be welcomed by businesses, especially those in retail and catering/hospitality which have been hit hard by the high level of business rates. Revaluations will also now take place three yearly rather than five yearly, meaning that there will now be reviews in 2021 and 2024.

Other business measures

In the Autumn Budget, £1.7bn was announced for measures to improve transport in English cities. Half of this was given to cities with mayors, but bids are now being invited from other cities across the UK for the remaining £840m.

Hand in hand with this went the Government's commitment to improve digital connectivity across the UK. In total, £190m was allocated to this and we will now see the first wave of funding, with £95m allocated to 13 areas across the UK.

There will also be £50m made available to help employers prepare for the new T-levels, the technical qualification the Government is introducing.

The Chancellor also discussed three consultations that may impact businesses, though the detail behind these was missing from the summary published on the government website.

Productivity

A long-standing topic in the Chancellor's speeches (and his predecessor's), productivity made it on to the formal agenda again, with the Chancellor promising "to understand how best we can help the UK's least productive businesses to learn from, and catch up with, the most productive."

Late payments

The Chancellor also promised, if not action, then at least the promise of action, on what he called "the continuing scourge of late payments". Small businesses everywhere will doubtless be very keen to see what the Chancellor comes up with on this topic.

"Human capital"

A slightly odd choice of phrase, but the Chancellor surmised that the government and business currently know more about measuring the value of investing in infrastructure than they do about measuring investments in "human capital". For this reason, he said, he had "asked the ONS to work with us on developing a more sophisticated measure."

There was then a further consultation announced via the treasury website on the same day as the Chancellor's speech, though Mr Hammond did not refer to it directly.

Enterprise Investment Scheme

Aimed at the current range of venture capital schemes (including the Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Venture Capital Trusts), this consultation is ultimately aimed at attracting more investment into innovative firms. The consultation is considering "additional incentives to attract investment" but, as with many other announcements from the Spring Statement, we will have to wait to see whether that promise comes to fruition.

What might we see in the future?

The pundits had speculated that the Chancellor would only speak for 20 minutes or so. 20 minutes came and went and MPs who had planned on a decent lunch started looking nervously at their watches. But in some senses, this last section of the speech was the most interesting, as it gave a clear indication of the measures we might see in future Budgets, depending on the outcome of various consultations.

The plastic tax

This has been widely trailed – it is also referred to as the 'litter levy' – and the Government will use the tax system to 'encourage the responsible use of plastic throughout the supply chain.' This will include items such as coffee cups, plastic cutlery and foam takeaway trays. The Chancellor did not mention chewing gum specifically but the rumours are that it will also be included in the measures. "Some of the money raised from any tax changes," for which you can read, 'there will be tax changes' – will be used to encourage the creation of newer, greener products, while £20m will also be given to businesses and universities to fund research into ways of reducing the impact of plastic on the environment.

Taxing the tech giants

What would a Budget speech – or a Spring Statement – be without an attack on the tech giants who are "not paying their fair share of tax?" The Government will once again be considering ways in which to tighten up on Facebook, Amazon, Google and friends: looking 10 years down the line it may also need to consider the impact of the Chinese tech giants such as Alibaba, Tencent and JD.com.

White van man goes green?

At the moment there is tax relief given for agricultural diesel but the Chancellor said he would "call for evidence" on whether this is contributing to air pollution. And in the days when every delivery from Amazon arrives in a white van, he announced that he would consult on tax cuts for low-emissions vans.

Giving people the skills they need

Clearly, improving skills benefits not just the individuals concerned but the wider UK economy, and the Chancellor gave a clear hint that he will offer tax relief to both employees and the self-employed who fund their own training.

Goodbye to cash?

Far more of us now use digital payments rather than cash – although the UK has some way to go to catch up with some countries (such as Sweden) where cash has all but disappeared. The Chancellor is 'seeking views' on encouraging business who want to use digital payments. And why wouldn't he? Digital payments can be tracked and taxed and would represent a way to strike back at the black economy.

Conclusion

The Chancellor's final point may have read as something of a warning to those up and down the country who currently deal heavily in cash (think hairdressers and window cleaners), but he was determined to finish on a high for all, repeating a message that his party has long promoted. He was keeping the UK on course to be, "an outward-looking, free-trading nation, confident that its best days lie ahead."

The detail of exactly how he plans to make that happen, though, may well have to wait until the Autumn Budget, where many of the Chancellor's plans will be made clearer.

For now, however, the new, slimmed down Spring Statement acted as a useful summary of our current economic outlook and an interesting trailer of both things to come and plans being made.

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