

Spring Budget Overview 2022

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Introduction

On Monday March 23rd 2020, the UK went into its first lockdown, following the outbreak and rapid spread of coronavirus.

At this point, Rishi Sunak had been Chancellor of the Exchequer for little more than a month, having replaced Sajid Javid on February 13th. He delivered his first Budget a month later, presenting what he then described as a 'temporary, timely and targeted' response to the coronavirus outbreak. The measures, he said, would 'greatly improve' the chance of the UK economy rebounding in the second half of the year. In retrospect, perhaps the most prescient comment came from Andrew Neil, then working for the BBC, who said that the Chancellor had "splashed the cash" and a huge increase in borrowing was on the cards.

As we all now know, the global pandemic had a much greater impact than Rishi Sunak could have anticipated. In 2020, the UK economy contracted by 9.4%. Having started the year at 7,542, the UK's FTSE-100 index of leading shares fell 14% to end the year at 6,461.

And then the economy did bounce back. As the vaccine programme was rolled out and the pandemic finally loosened its grip in 2021, the UK economy grew by 7.5%, while the stock market recovered nearly all the lost ground, ending the year at 7,385. By January of this year, the papers were finally reporting that the UK economy was back to 'pre-pandemic levels'.

Many of our clients will know the famous quotation from former Prime Minister Harold Macmillan, who when asked by a junior reporter what his greatest problem was, simply replied: "Events, dear boy, events."

As Chancellor, Rishi Sunak has had more than his share of 'events'. First, there was the pandemic and then, on February 24th this year, the Russian invasion of Ukraine, as well as rising inflation, rapidly increasing energy prices and a looming cost of living crisis. Despite the UK economy rebounding in 2021, the economic background to the Spring Statement was anything but rosy.

The 2021 Budgets

Before we look at the economic background to the Spring Statement, it is perhaps worth looking back to the two Budget speeches Sunak delivered last year, on March 3rd and October 27th. Today's Spring Statement came less than five months after the Autumn Budget and Spending Review – but plenty of turbulent water has flowed under the bridge in those five months.

Last March, Rishi Sunak was promising “to do whatever it takes”. The UK was still in the grip of the pandemic and the Chancellor was focused on three things: supporting people and businesses; fixing the public finances and beginning the work of ‘building our future economy’.

At the time, the speech attracted criticism, with the Institute for Fiscal Studies (IFS) saying the Budget implemented the ‘biggest net tax increase for almost 30 years’. With the Chancellor apparently set on sticking to his planned rise in National Insurance, that's a charge that still hangs over him 12 months later.

In March, the Office for Budget Responsibility was forecasting growth of 4% in 2021, followed by 7.3% in the current year. By October, the OBR had raised the 2021 forecast to 6.5%, with 6% growth expected in 2022. As we have seen above, the actual figure for 2021 was 7.5% growth, with – as the Chancellor had predicted – the economy more or less back to pre-pandemic levels ‘by the turn of the year’.

One of the more notable features of the October Budget was Rishi Sunak's introduction of a new ‘Charter for Budget Responsibility’, enshrined in two new fiscal rules:

- Underlying public sector net debt must be falling.
- In normal times, the Government should only borrow to invest in future growth: ‘day-to-day’ spending must be met from taxation.

Again, the speech came in for its fair share of criticism. Director of the IFS, Paul Johnson, said that ‘deep in the bowels’ of the Budget was an expectation that household disposable income ‘would be almost stagnant’ over the next five years. That, of course, was a comment made before inflation rose sharply and we all found out how much more we'd need to pay for our gas and electricity – emphasising the problems Sunak faced as he spoke in March 2022.

The economic background

Wednesday morning's papers were divided on what they wanted – and expected – from the Chancellor's speech. The Guardian said that Sunak would 'stand by hard-working families'. The FT took the opposite view, suggesting that the Chancellor would 'lay aside windfall cash rather than helping households'.

The Daily Mail urged the Chancellor to 'spike the hike', arguing that with £50bn to play with, he could axe the planned National Insurance increase – the 'worst-timed tax rise in history'.

A cut in fuel duty was widely expected – although whether people will see 5p off a litre of petrol as compensation for rapidly rising food and energy prices is open to debate. Inflation has risen steadily since the Autumn Budget, and on Wednesday morning, it was announced that inflation for February had hit 6.2%. Depending on which forecast you read, the conflict in Ukraine could push UK inflation even higher. For instance, Goldman Sachs predicts it could go up to as much as 9.5% later this year.

With the energy price cap set to rise by £693 in April – and plenty of anecdotal tales of the energy companies wanting to double or triple consumers' monthly payments – the Chancellor's speech was unquestionably going to be judged on what it did to help people meet the rising cost of living.

The Bank of England has already increased the base rate to 0.75% to try to keep a lid on inflation but, with inflation now at its highest level for 30 years, you suspect the shortage of wheat from Ukraine might be a more important factor than the decisions of the Monetary Policy Committee.

There was some good news for the Chancellor: there are now 29.7m people in work and Government borrowing is less than half what it was in the same period last year. That said, inflation pushed interest payments on the Government's debt to a record £8.2bn last month, up nearly 53% on a year ago.

The political background

If there have been world 'events' to challenge Rishi Sunak, there have also been plenty of domestic political events to challenge the Government. Having won an 80-seat majority at the last General Election, the Conservatives have recently lost their lead in the opinion polls, with controversy constantly surrounding Boris Johnson – the latest his seeming comparison of the Brexit vote with Ukraine's resistance to Russia.

Since he made his first Budget speech two years ago, Rishi Sunak has been widely touted as Boris Johnson's likely successor. A quick glance at the bookies' odds confirms his position as favourite, ahead of Foreign Secretary Liz Truss. That said, a poll for the website Conservative Home has Sunak only 10th in their 'popularity league table', with Defence Secretary Ben Wallace at the top, followed by Liz Truss.

Certainly, with rising inflation and a looming cost of living crisis, some Conservative backbenchers are openly questioning whether Sunak – a man reportedly worth £200m and about to spend £400,000 on a 'leisure complex' in his garden – can really empathise with voters facing a choice between eating and heating.

For now, though, Rishi Sunak remains firmly in 11 Downing Street, almost certainly with half an eye on the property next door. After the current occupant had finished taking an unusually long Prime Minister's Questions, the Chancellor rose to speak at 12:44 on Wednesday March 23rd.

The speech

Opening remarks

Inevitably, Rishi Sunak opened his speech with comments about Ukraine. We had, he said, ‘a moral responsibility to use our economic strength to support Ukraine and impose severe costs on Putin’s regime’. The strength of the UK economy underpinned the nation’s security and – in turn – provided security for working families. But, said the Chancellor, the sanctions on Russia were not cost-free, and represented a clear risk to the UK’s recovery.

The numbers

Rishi Sunak commented that the Office for Budget Responsibility has said there is “unusually high uncertainty around the [economic] outlook”.

For now, the OBR is forecasting growth of 3.8% this year (sharply down on its October forecast), followed by 1.8% in 2023, then 2.1% in 2024. This would then be followed by 1.8% growth in 2025 and 1.7% growth in the following three years. However, the lower growth outlook has not affected jobs performance, with unemployment currently at 3.9% - and predicted to be lower in every year of the forecast.

The Chancellor did acknowledge the inflation figure of 6.2% for February – which, he said, was lower than the US and broadly in line with Europe. He went on to say that the OBR expected an average of 7.4% this year. As we have commented above, there are forecasts that see inflation going significantly higher than this.

The Chancellor stressed that the Government was meeting its new fiscal rules, with both debt as a percentage of GDP and borrowing as a percentage of GDP reducing over the period of the forecast. Borrowing in the current financial year will be 5.4% of GDP, falling to 3.9% next year.

Continued...

The speech continued

The numbers

In cash terms, the OBR estimates that the Budget deficit – the gap between spending and revenue – will be £127.8bn in 21/22 and £99.1bn in 22/23. This is significantly down on the October forecast, when the OBR predicted that borrowing would be 7.9% of GDP – or £183bn in cash terms – in 22/23.

The Chancellor said that the cost of servicing the debt will rise to £83bn in the next fiscal year, the highest level on record. With the conflict in Ukraine in mind, he said that “we should prepare for the economy and the public finances to worsen, potentially significantly”.

Although Rishi Sunak has benefitted from higher than expected receipts in a number of areas, he has resisted calls for higher public spending. His counter is simple: the huge cost of servicing the debt, with March the third month in a row to break debt interest records.

The cost of living crisis

With almost all of the focus pre-speech dedicated to the rapidly rising cost of living, it was no surprise to hear the Chancellor's first announcements address this directly. Rishi Sunak announced three immediate measures to help combat rapidly rising prices.

What Fuel duty cut by 5p per litre.

When From 6pm on 23rd March 2022.

Comment The Chancellor sought to mitigate the cost of fuel, with the 'price at the pump' currently at its highest ever level. This, the chancellor said, was only the second time in 20 years that fuel duty had been cut. The 5p per litre duty cut was predicted to save households and businesses a total £2.4 billion over the next 12 months, with the Chancellor committing to the cut until at least March 2023. When compared with uprating fuel duty in 2022-23, the Chancellor put the savings at £100 for the average car driver, £200 for the average van driver, and £1,500 for the average haulier.

What VAT relief for the installation of Energy Saving Materials (ESM).

When April 2022.

Comment There were two announcements here, designed to help households save money on measures that would lower energy bills and therefore deliver savings in the long term. Firstly, the Chancellor pointed out that the UK was no longer subject to a Court of Justice of the European Union ruling that limited how the current 5% VAT rate could be applied. This means that the relief can be applied to more types of ESM, benefitting households who wish to investigate such measures. Mr Sunak then announced a time-limited zero rate of VAT would be introduced for the installation of ESMs, saving the average household £1,000 on the cost of installing solar panels, for example. The panels themselves would then deliver £300 of annual savings to the household's energy bills, claimed the Chancellor, as well as helping the UK's long-term 'net zero' carbon emissions target.

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The cost of living crisis continued

What	Targeted support to vulnerable households.
When	April 2022.
Comment	The Chancellor highlighted that the increase in the cost of living would be felt disproportionately by those on the lowest incomes. To help vulnerable households, Mr Sunak doubled the Household Support Fund, from £500m to a total of £1bn.

The Spring Statement Tax Plan

Somewhat unexpectedly, the Chancellor announced what he called “a principled approach to cutting tax”, delivered as a separate 12-page document, alongside the main Spring Statement. Subtitled ‘my vision for a lower tax economy’, the Chancellor spent much of his statement in the House of Commons providing a three-point summary of the Tax Plan. Whilst some measures would be delivered sooner, many of the items in the Tax Plan were pre-announcements of proposed changes, with final confirmed changes to be delivered as part of the Autumn Budget later this year. Rishi Sunak said that the specific approaches covered in the document would:

- Help families with the cost of living
- Create the conditions for higher growth
- More fairly share the proceeds of that growth

Two measures in particular from the Spring Statement Tax Plan attracted attention, whilst other measures announced are covered in the appropriate sections of this document.

What	Increasing the National Insurance threshold to £12,570, to align with the income tax personal allowance.
When	July 2022.
Comment	Aligning the National Insurance threshold with the personal allowance threshold means that the first £12,570 an individual earns will be completely tax free. Previously, the National Insurance threshold had been £9,568, so whilst no tax was paid until someone earned £12,570, there were National Insurance Contributions (NICs) to be paid on earnings above £9,568. Thirty million working people would benefit, the Chancellor said, with savings of around £330 per year. Crucially, this £6 billion tax cut also gave the Chancellor an answer to critics of the Health and Social Care Levy. According to the Chancellor’s figures, 70% of workers would now pay less National Insurance, even after the introduction of the levy.

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The Spring Statement Tax Plan *continued*

- What** A cut in the basic rate of income tax, from 20% to 19%.
- When** By the end of this parliament in 2024.
- Comment** Clearly with one eye on the fact that this cut may not actually come into force for another two years, this is a longer-term policy goal from the Chancellor, but nevertheless, a tax cut that will be welcomed by many. This would be, the Chancellor said, the first cut to the basic rate of income tax for 16 years and would deliver tax savings for 30 million “workers, pensioners and savers”. When it arrives, the average taxpayer will be £175 per year better off as a result.

Personal taxation and allowances

- What** Increasing the National Insurance threshold and a cut in the basic rate of income tax.
- When** July 2022 and by 2024, respectively.
- Comment** As detailed in the previous sections, the two major announcements relating to personal taxation and allowances were the headline changes to the National Insurance threshold and the planned cut in the basic rate of income tax, due to be delivered by the end of this parliament in 2024.
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- What** Changes to how self-employed individuals with profits between the Small Profits Threshold and Lower Profits Limit pay National Insurance Contributions.
- When** April 2022.
- Comment** To align self-employed individuals with employees, the government is allowing those with low earnings (an annualised threshold of £9,880 between April to June, and £12,570 from July) to build up National Insurance credits but pay no Class 2 NICs. The government states that this change “represents a tax cut for around 500,000 self-employed people worth up to £165 per year”.
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- What** The income tax personal allowance and basic rate limit have been frozen at 2021-2022 levels until April 2026.
- When** From April 2022, announced on 3rd March 2022.
- Comment** Announced three weeks before the Spring Statement you could, with some justification, describe this as a ‘stealth tax’. The income tax personal allowance has been frozen at £12,570 until 2026, whilst the basic rate limit will stay at £37,700 over the same timeframe. The government’s own documentation highlights steadily increasing tax revenues over the period, whilst showing that 32.5 million people will be worse off in 2022-23, rising to 33.3 million by the final year of the measure in 2025-26. A higher rate taxpayer will be worse off to the tune of £165 in the first year of the measure, rising to £734 in 2025-26.

Business investment and taxation

What	Taxation changes to encourage business investment.
When	Autumn Budget 2022 and April 2023.
Comment	Whilst no specific policy was committed to as part of the Spring Statement, the Chancellor was at pains to point out that the government needs to stimulate capital investment from the private sector.

The separate Spring Statement Tax Plan summarised much of the Chancellor's thoughts on the matter:

"The UK has a long-standing issue with productivity and one of the key underlying causes is a lack of capital investment.

Our companies invest just 10% of GDP each year, compared with 14% in our competitor countries – our tax system doesn't reward investment as much as other countries do."

To address this issue, the government previously introduced the 'super-deduction', allowing companies to write off the costs of plant and machinery investments against taxable profits at a rate up to 130%. The super-deduction will end in April 2023 and the government is considering further options to replace it, which it expects to announce in more detail in the Autumn Budget.

Specific measures on the table, but not yet committed to, include;

- Increasing the permanent level of the Annual Investment Allowance
- Increasing Write Down Allowances
- Introducing a First Year Allowance, with various suggested applications
- Introducing full expensing to allow the write-off of the costs of qualifying investments in one go

Until the Autumn Budget is announced these are, of course, merely ideas, but it was very clear from the Chancellor's statement and subsequent documents that there will be further major announcements coming later in the year. Watch this space.

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Business investment and taxation **continued**

What	Reforms to R&D tax credits.
When	Autumn Budget 2022 and April 2023.
Comment	On a similar tone to the above business investment measures, the government is currently in the process of reviewing the Research & Development tax credit system, which it feels could deliver more 'bang for its buck'.

The Spring Statement provided the opportunity for both specific updates and more promises of things to come by the time we get to the Autumn Budget and, presumably, the review has made some further progress.

Three measures will be introduced in April 2023, namely:

- R&D work carried out by UK companies outside of the UK for material or regulatory reasons will be eligible for tax relief.
- All cloud costs associated with R&D will be eligible for reliefs.
- All pure mathematics will be eligible for R&D reliefs, supporting the Artificial Intelligence, quantum computing, robotics, manufacturing and design sectors.

Announcements on other changes, such as expanding the 'generosity' of the RDEC scheme, which the Chancellor specifically mentioned in his speech, will be made in the Autumn Budget.

What	An increase in the Employment Allowance to £5,000.
When	April 2022.
Comment	Employers can currently claim the Employment Allowance against the first £4,000 of their Class 1 National Insurance liability. This is therefore a tax cut, worth £1,000 per employer, per year, with the allowance increased to £5,000 from April. In total, this will see 50,000 businesses taken out of paying NICs and the Health and Social Care Levy entirely.

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Business investment and taxation **continued**

- What** Business rate freezes and reductions.
- When** April 2022.
- Comment** The government had already announced freezes on business rates for 2022–2023, which come into force in April. The freeze in rates, the government says, amounts to a tax cut worth £4.6 billion over the next five years. The hospitality sector meanwhile, particularly impacted by the COVID pandemic, will benefit from a new temporary 50% Business Rate Relief.
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- What** Green reliefs for business rates.
- When** April 2022.
- Comment** Previously announced for April 2023 (to run until March 2035), the government is bringing forward these targeted business rate exemptions to take effect from the forthcoming tax year. They apply to “eligible plant and machinery used in onsite renewable energy generation and storage”, whilst a 100% rate relief applies to “eligible low-carbon heat networks with their own rates bill”.
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- What** Apprenticeship levy reforms.
- When** No timetable.
- Comment** Another plan for the future, included in the Spring Statement Tax Plan, is the Apprenticeship Levy. The government is looking at whether this is doing enough to increase skills. In the UK, just 18% of 25-64 year olds hold a vocational qualification, a third lower than the OECD average. The government has pledged to explore whether the Apprenticeship Levy is doing enough to encourage skills funding and make changes to the tax system, if required. There were no defined timescales for this, but it would be reasonable to expect an update during the Autumn Budget and for changes to be implemented in either April 2023 or 2024.

Other measures

Support for Ukraine

What	Defence, humanitarian and economic support for Ukraine.
When	Efforts and schemes so far already announced.
Comment	The government has separately detailed various levels of support for Ukraine and sanctions against Russia and outlined some of those measures within the Spring Statement.

Of note, the Statement highlights:

- £220 million package of aid helping aid agencies provide medical supplies and basic necessities.
- \$100 million budgetary support grant contributing to the World Bank's \$700 million March emergency financing package for Ukraine.
- £100 million package to boost the Ukrainian economy and reduce its reliance on gas imports.

The Spring Statement also details the 'Homes for Ukraine' scheme, committing to "provide local authorities with £10,500 per person for support services, and between £3,000 and £8,755 per pupil for education services, depending on phase of education, as well as £350 per month for sponsors for up to 12 months".

Fraud and compliance

What	Various increases in spending to tackle fraud and compliance, with the goal of recouping funds.
When	Various timescales.
Comment	Though not a feature of the Chancellor's speech, Mr Sunak has previously commented on a desire to address compliance and fraud, as a way of protecting the public purse and, ultimately, lowering taxation. The Statement announced increases in funding for HMRC compliance resource, Department for Work and Pensions compliance, tax credit error and fraud detection and the Public Sector Fraud Authority.

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Other measures **continued**

The UK's infrastructure

What	Levelling Up Fund second round.
When	Immediately.
Comment	The Levelling Up Fund allocated £1.7 billion of investment in 105 local infrastructure projects during its first round. The Spring Statement announces the second round is now inviting bids to the £4.8 million fund.

Energy bills

What	A £9 billion package to help with rising energy bills.
When	Announced in February, due to be delivered in Autumn 2022.
Comment	As announced in February, the government will provide a £200 reduction in energy bills this Autumn. This will be paid back automatically over the next 5 years. In addition, there will also be a £150 non-repayable Council Tax rebate for houses in bands A-D.

Conclusion and reactions

Closing remarks

Rishi Sunak's speech had been billed as 'little more than half an hour'. In the event, he spoke for about ten minutes longer than that and – in a now-trademark finale – saved his rabbit-in-the-hat to the end. Barely able to make himself heard above a very raucous House of Commons, Sunak announced the 1p cut in the basic rate of income tax before the end of the parliament, "a £5bn tax cut for 30m people".

By 2024, he said, "inflation will be under control, debt will be falling and our fiscal rules will have been met". Taxes would be cut, debt would be falling and public spending increasing – all part of a plan. "A plan to grow the economy, to level up and to deliver the biggest net tax cut in a quarter of a century," he said.

Conclusions

Rishi Sunak recently delivered the prestigious annual Mais Lecture – a platform traditionally used by Chancellors to set out their economic philosophy – none more so than Nigel Lawson in 1984 when he turned the post-war orthodoxy on its head. Sunak's speech this year was described by one commentator as a 'bright young executive brought in to rescue a failing company'.

The bright, young executive is, supposedly, a small state, low tax Conservative: the problem for him is that he is Chancellor when 'events' are demanding a bigger state and higher tax. Given the current state of the war in Ukraine – at the time of writing the war is in its 28th day, peace talks remain distant and Russia is apparently 'preparing a major offensive' – neither he nor the OBR can have any idea of the impact it will have on the global economy, the UK or the level of inflation.

And while that level of inflation may average 7.4% over the coming year, it will almost certainly go above that figure in the coming months: the OBR sees it peaking at 8.7%. Unsurprisingly, therefore, the OBR says it expects real household incomes to fall this year by 2.2% - that is the fastest rate since comparable records began in the 1950s.

Continued...

Conclusion and reactions *continued*

Conclusions

In these circumstances, those people hoping that the planned increase in National Insurance – for both employers and employees – would be scrapped, were always going to be disappointed.

‘The Health and Social Care Levy is not incompatible with reducing taxes’ was the clear message, as he looked to offset the rise by equalising the thresholds for tax and National Insurance.

Perhaps the final word is best left to Sky reporter Beth Rigby, who said: ‘Yes, he moved on taxation, yes he did offer billions in relief for people in the immediate term. But my biggest takeaway from this is that there will surely be a bigger package of measures in the Autumn Budget.’

Given the uncertainty surrounding the conflict in Ukraine, and that both the Chancellor and the OBR acknowledge the current uncertainty is ‘unusually high’, it is very hard to argue with that view.

We’ll see you again in October.

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