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Newell
Palmer

Spring Statement

Overview 2019

Introduction

When we write these reports on the chancellor's Budget speeches – and, more latterly, his Spring Statements – we always try and put them in the relevant political and economic context.

This year it is impossible not to put the Spring Statement in a political context. On Monday night, the Prime Minister flew to Strasbourg and yet another meeting with Jean-Claude Juncker. She claimed to have secured a 'legally binding' agreement on the Northern Ireland backstop, but by Tuesday lunchtime, Attorney General Geoffrey Cox was delivering his opinion that 'nothing had changed'. With the 'Star Chamber' of Brexit lawyers advising MPs not to vote for May's deal, it seemed impossible that it could get through the Commons, and that duly proved to be the case, as Theresa May lost her second 'meaningful vote', this time by 391 votes to 242.

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As we write this introduction on the morning of Wednesday March 13th, the Prime Minister has promised the Commons a free vote this evening on taking 'no deal' (effectively leaving the European Union on 29 March and defaulting to World Trade Organisation rules) off the table. This seems likely to be approved by the Commons, who will then presumably pass a further motion asking for an extension to Article 50.

Whether the motion to remove 'no deal' has any force in law and whether the EU will agree to an extension of Article 50 are both subjects that are yet to be endlessly debated. It may be that by the time you read this, the situation will have changed again – but the practicalities of getting a report on the Spring Statement to clients quickly means that we had to settle on a cut off point. As we all know by now, with Brexit there is barely a day that goes by without the situation veering one way or another, but the Spring Statement waits for no man or woman, including Theresa May.

You wonder how history will see Mrs May and there is a suspicion that neither said history, nor the management text books, will be kind to her. As the Spectator put it on Tuesday night, reacting to May's decision to grant a free vote on 'no deal', 'for the governing party to have no position on the most important issue to come before the Commons in years is remarkable'.

The Economic Background

It's against this most turbulent and febrile background that the chancellor stood to deliver his Spring Statement. As usual there was plenty of information already in the public domain which formed the economic background to Philip Hammond's position as he prepared to deliver his statement.

Mr Hammond's views on Brexit, for example, are well known. Despite his own constituency voting to leave the EU, the chancellor has made no secret of his opposition to the referendum result and recently referred to the "Brexit wing of the Conservative party."

In the days leading up to the Spring Statement, he freely talked of the purse strings being opened if MPs backed the Prime Minister's withdrawal agreement – so one would presume that 'no deal' will see those purse strings staying tightly drawn.

As always with the economic news, you can choose to see the glass as half-full or half-empty. January figures from the Office for National Statistics showed that the UK economy had grown by 0.5% – the biggest increase in monthly output since 2016 and more than double economists' predictions of 0.2% growth. The service sector returned to growth of 0.3% while manufacturing was up by 0.8%: the construction sector was also up, by an impressive 2.8%.

The consensus among economists is that the UK will grow at 1.3% to 1.4% this year, with inflation in January falling to a two year low of 1.8%. Earlier figures from the ONS showed that 2018 ended with 444,000 more people in work than a year previously, and that 60,000 fewer people were reliant on zero-hours contracts.

Clearly more people in work translates to more tax receipts for the government and borrowing fell to its lowest level since 2001 in January. In the same month, the government collected £21bn in income tax and corporation tax, leaving a surplus of £14.9bn in the month. The government should also be back on track to have a smaller deficit (the amount it needs to borrow to fund spending) in this financial year.

But the continuing confusion over Brexit cannot be helping business, with CBI director-general Carolyn Fairbairn saying that any extension to Article 50 "should be as short as realistically possible and backed by a clear plan."

Stephen Phipson, chief executive of manufacturers' group Make UK, was rather more blunt, saying, "It is now essential that Parliament brings the curtain down on this farce and removes the risk of no deal."

Sentiments the chancellor would unquestionably agree with so what did he have to say?

Philip Hammond's Introduction

The chancellor – hair freshly cut for the occasion – rose to speak after a Prime Minister's Questions which featured jokes about Theresa May's lost voice.

He wasted no time in making his views on Brexit even better known, and returned to the topic consistently throughout the speech. The economy was "robust" he declared, but there was a "cloud of uncertainty" hanging over it.

Despite this, the news on the economy was good, with nine years of uninterrupted growth, 3.5m new jobs created and the fastest rate of wage growth for ten years. "All," said the chancellor, "thanks to the hard work of the British people" – provided, of course, that we reach a deal with the European Union.

The Economic Forecasts

The chancellor unveiled the growth forecasts from the Office for Budget Responsibility: 1.2% this year, followed by 1.4% in 2020, then growth of 1.6% for each of the next three years. Those growth forecasts were better than those for the German economy and would, he said, see the creation of 600,000 new jobs in the UK by 2023. Aiming the first of many barbs at the Labour front bench, the chancellor stressed that 96% of the new jobs created in the UK last year were full-time jobs, and that the OBR expected wage growth of 3% or higher throughout each of the next five years. With the OBR forecasting that inflation would stay close to the target level of 2%, that would mean 'real wage growth'.

The Public Finances

Turning to the public finances, the chancellor stated that government borrowing this year would be 1.1% of GDP – equal to £130bn less than "under the last Labour government."

Total government borrowing was expected to be £29.3bn in this financial year, falling to £21.2bn next year and falling further to £17.6bn, £14.4bn and then £13.5bn by 2023/24, to give the lowest government borrowing in 22 years.

Total debt as a percentage of GDP would also fall over the same period, from 82.2% next year (having reached a peak of 85.1% in 2016/17) to finally reach 73% of GDP by 23/24. The chancellor stressed that the public finances had continued to improve since the Autumn, with the forecasts for borrowing and debt consistently lower in the Spring Statement than they had been in the Budget.

All this added up to what the chancellor described as a "journey of recovery" from the last Labour government as he gave himself a hearty pat on the back from having had such a clear plan, "since I became chancellor in 2016." In fact, the chancellor was – given the background to his statement – quite upbeat.

He made much of the "investment" in the public finances – a total of £150bn since 2016 – highlighting the Prime Minister's announcement of £34 billion of additional funding per year for the NHS. The chancellor then went on to talk of the benefits that could flow from a 'deal dividend', assuming that a deal could be reached with the EU. Reaching a deal would, he said, release both a fiscal dividend and would provide a boost to business confidence.

He also gave a very clear indication that his Autumn Budget would be long and complicated, as he announced a comprehensive three year spending review to start before Parliament's summer recess.
By that time, of course, he should know the details of the UK's departure from the EU. What is less certain, though, is whether he will be in a position to deliver his planned spending review. If Theresa May is not Prime Minister at that point, which seems entirely plausible, then there is very little prospect of Mr Hammond being Chancellor come the Autumn. The mooted spending review and significant Autumn Budget are therefore things to keep an eye on for another day and, potentially, another chancellor.

Written Ministerial Statement

At this point in his speech, the chancellor made a fleeting reference to a 'WMS'. Given the state of the Commons over Brexit, you could be forgiven for thinking that might refer to Weapons of Mass Speculation. Sadly, the answer was rather more sober: it was a Written Ministerial Statement which, effectively, sat alongside the statement the chancellor delivered in the Commons, much like the full Budget document does during the chancellor's more significant Autumn Budget.

This confirmed all of the points the chancellor made in his speech, along with further commitment to crack down on offshore tax havens and measures to curb the abuse of research and development relief by small and medium sized firms.

There was also a further step on the road to 'making tax digital', with digital record keeping for VAT now mandatory from 1 April. More details on the most salient points from the WMS are included below, although it is worth noting that there is scant detail to back up most of these announcements.

Personal Taxation and Allowances

What	Child Trust Funds (CTFs).
When	To be published in the coming months.
Comment	The chancellor announced a consultation on maturing CTFs, designed to ensure that CTF accounts can retain their tax-free status after maturity.

What	CGT private residence relief consultation.
When	To be published in the coming months.
Comment	Following on from the announcement at Budget 2018, this consultation will look at the changes to lettings relief and the final period exemption.

What	Enterprise Investment Scheme (EIS): approved funds guidelines.
When	To be published in the coming months.
Comment	This forthcoming document will contain guidelines stating HMRC's proposed approach to setting appropriate conditions and approving EIS funds.

Business and Business Taxation

What	The government has announced a further crackdown on offshore tax evaders and their advisers as part of an initiative called No Safe Havens 2019.
When	Strategy document published March 2019.
Comment	In a document published alongside the chancellor's Spring Statement, HMRC outlined their strategy for cutting down overseas tax evasion.

What	Smaller businesses' energy bills and carbon emissions.
When	Immediately.
Comment	The chancellor announced plans to help small businesses reduce their energy bills and carbon emissions. The government will launch a call for evidence on a 'business energy efficiency scheme' to explore how it can support investment in energy efficiency measures.

What	Preventing the abuse of the R&D tax relief for small or medium sized enterprises.
When	In the coming months.
Comment	As part of the wider tax avoidance review, this specific measure will look at R&D tax relief, particularly examining how to stop false claims whilst keeping it available for genuine business claims.

What	Making Tax Digital (MTD) – mandatory digital record keeping for VAT for businesses over the VAT threshold.
When	From 1 April 2019.
Comment	The MTD scheme is broadly the modernisation of the tax system. This important first step comes into force in April.

What	Structures and buildings allowance.
When	The draft legislation is available for comment now.
Comment	As announced at Budget 2018, the structures and buildings allowance is about introducing a new, permanent allowance for investments in non-residential structures and buildings. The idea is intended as part of wider measures to create a competitive tax regime for businesses.

What	The apprenticeship levy announced during Budget 2018.
When	From April 2019.
Comment	The apprenticeship levy announced in last year's Budget has been brought forward to April this year. This will see the 'co-investment rate' paid by employers cut by half from 10% to 5%.

Plans For a 'No Deal' Brexit

Despite the details contained in the WMS and covered above, the Spring Statement was never going to feature a large number of specific announcements on taxation or spending. When he became chancellor, Hammond announced that he wanted a once-a-year Budget. The chancellor has been successful in ushering in this new regime of fiscal announcements, to the point where the BBC actually dismissed the Spring Statement as 'not a major fiscal event' in their introduction.

It was, however, very clearly a political event, with the chancellor following the public finances with yet another attack on the possibility of a 'no deal' Brexit. Eventually, though, he conceded that the government had made some plans for the possibility of leaving the EU without a deal, with both border regulations and a temporary tariff schedule having been put in place. There was, though, "no fix" for no deal: fortunately, Hammond said he was confident of an eventual deal that would remove the "spectre of uncertainty" which seemed to haunt the entire speech.

Spending Plans

As Philip Hammond always does, he listed a raft of spending commitments or money that had already been invested on the national infrastructure. £37bn on the national productivity fund via investments in road, rail and the still painfully slow investment in fibre broadband.

There was up to £260m for the 'Borderlands' growth deal (for the England/Scotland border region), £100m for Carlisle from the Housing Infrastructure Fund and potential further investment in mid-Wales, Derry and Londonderry.

The chancellor congratulated himself on having ended Labour's Private Finance Initiative – and then talked about private investment in the UK's infrastructure which, to the seasoned political observer, might sound like much the same thing.

The UK as an Open Economy

The next section of the speech dealt with the UK as an open economy and the chancellor announced moves to ensure that the UK could still attract skilled people from around the world. He stated that from June 2019, citizens of the US, Canada, South Korea, Singapore, Japan, Australia and New Zealand would be able to use e-gates at UK airports and Eurostar terminals and that paper landing cards will start to be abolished from the same date. In addition, jobs requiring PhD level qualifications would be exempt from the visa cap rules.

Whilst the chancellor was on the subject of technology he spent some more money: £79m for a super-computer in Edinburgh, £45m on genomics research and £81m on state-of-the-art laser technology in Oxfordshire. "Cutting edge investment, Mr Speaker," he quipped and Tory backbenchers duly convulsed with laughter.

Having announced the Digital Services Tax in his last Budget, the chancellor announced further measures to protect the consumer in the digital economy, and that the Competition and Markets Authority would be looking at digital advertising. Inevitably this lead to the chancellor's oft-repeated claim that the 'digital giants' will pay their fair share of tax.

Housing and the Environment

The chancellor announced that he would end his speech with remarks on housing and the environment and, once again, confirmed his commitment to "fix the broken housing market," with the government on track to deliver 300,000 new homes a year. There would be an investment of £717m to 'unlock' 37,000 new homes in London, Cheshire and in the Oxford/Cambridge Arc. In addition, the government would guarantee up to £3bn of borrowing by housing associations, to support the delivery of around 30,000 affordable homes.

On the environment – "clean growth" as the chancellor termed it – the government would take steps to help small businesses reduce their energy bills and carbon emissions and also give people the option to travel 'zero carbon'. At the moment, this is more of a promise than a reality, but it appears that the government wants to take steps to help consumers understand the carbon impact of their journeys, and look at whether travel providers should be required to provide carbon offsets to their customers.

There was also a commitment to make sure that wildlife was not compromised in delivering new infrastructure projects, with the government mandating that new developments in England should deliver a 'net gain' for biodiversity.

One Last Thing...

Of course, when he said he'd finished, the chancellor didn't actually mean that and finally finished with three more announcements. Firstly, that from the next school year, the government would fund the provision of sanitary wear for girls, ending the 'period poverty' which so many MPs had campaigned against.

There were also some warm words on speeding up payments for small and medium sized businesses and lastly an immediate £100m to police forces in England, specifically to pay for overtime to tackle knife crime.

"There was," said the chancellor, "a huge opportunity ahead for the UK. We are the fifth largest economy in the world... with no limit to our ambition." Provided, of course, in the chancellor's view, that Brexit proceeds in as orderly a fashion as possible from this point.

Whether he will still be chancellor when the Autumn Budget comes around is anyone's guess. As we have written above, his continued occupation of 11 Downing Street is almost wholly dependent on Theresa May remaining his next door neighbour. Depending on what happens with Brexit, it is entirely possible that Hammond – or his successor – could be making another Statement well before the planned Autumn Budget.

We are obviously in uncharted waters and there will inevitably be many twists and turns in the road ahead. It may even be that some of the comments written here on Wednesday afternoon are out of date by the time you receive this report.

More than ever, we would stress that if you have any questions at all on what we have written above then please do not hesitate to contact us. We are never more than a phone call or an email away and we appreciate that many clients will want some reassurance in these challenging times.

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