Review of Chancellor's Spring Statement 2022

Context

Chancellor Rishi Sunak spring statement focused on personal taxes and support and left most decisions related to business to the autumn Budget. There was no new money for sectors such as education and health, which commentators note amounts to a real terms cut.

Sunak is struggling with the sharpest drop in living standards seen since modern records began in 1956 (Financial Times), even before the large-scale war in Ukraine. The Office for Budget Responsibility has cut its growth forecast from 6% to 3.8% for this year, and on expects disposable income to drop by 2.2% and not to recover to pre-pandemic until the end of 2024.

OBR forecasts inflation to continue to rise, and to peak towards the end of this year at more than 8% CPI.

Commentators predicted tensions ahead in the public sector, with government seeking pay awards at around the 3% mark for teachers, with inflation averaging more than 7% (Institute for Fiscal Studies).

Meanwhile, the OBR's 15-year forecast that leaving the EU will cut UK productivity [GDP] by 4% remains; as does its view that total imports and exports will be 15% lower than had we remained in the EU. It notes that, "since 2019 the UK appears to have become a less trade intensive economy with trade as % of GDP falling 12% since 2019 - two and a half times more than any other G7 country".

Measures

The Chancellor resisted demands the 1.25 percentage point, more than 10% increase, in National Insurance. But he raised the NICs threshold by £3,000 in July, to the same level as income tax, at a cost of £6 billion. These measures have drawn attention away from the fact that the tax allowance thresholds have remain unchanged, which at a time of sharply rising inflation amounts to a significant real-terms reduction.

In a break with tradition, Sunak announced a 5% cut in the basic rate of income tax, effective from April 2024, costing £5 billion a year. The cut takes the basic rate from 20% to 19%. Speculation is that it will be cut further, in advance of a general election.

"By 2024, the OBR currently expect inflation to be back under control, debt falling sustainably, and the economy growing," the chancellor told the Commons.

Fuel duty is cut by 5p/lit for 12 months, to 52.95p/lit, following pressure from around 50 Conservative backbenchers. The cut of almost 9% will cost £2.8 billion but should be offset by increased VAT receipts from higher road fuel prices. Fuel duty has not increased for more than a decade – although for diesel, it remains almost the highest in Europe. Meanwhile, the day before the budget, a survey of local authorities showed that their spending road maintenance continued to decline last year, as road conditions worsen.

The OBR concluded that the spring statement reduced the net tax rise by this chancellor by around one sixth. The main increases have been the increase in the NICs rate, the freezing of allowances and the increase in corporation tax next year, from 19% to 25%.

Business taxes

Sunak did little to affect businesses directly. For small firms, the employment allowance is being raised this month from £4,000 to £5,000, worth up to £1,000.

The 5% VAT on solar panels, heat pumps, and installed insulation is removed – politically, a Brexit benefit. There had been hopes for more radical incentives for the construction sector.

Sunak is widening R&D tax credits. He said: "Right now, we know that the amount businesses spend on R&D as a percentage of GDP is less than half the OECD average. And that is despite us spending more on tax reliefs than almost every other country.

"Something is not working. So we'll reform R&D tax credits so that they're effective and better value for money. We'll expand the generosity of the reliefs to include data, cloud computing, and pure maths. And we'll consider, in the autumn, whether to make the R&D expenditure credit more generous."

"Weak private sector investment is a longstanding cause of our productivity gap internationally. Capital investment by UK businesses is considerably lower than the OECD average of 14% and it accounts for fully half our productivity gap with France and Germany.

"Once the Super Deduction ends next year, our overall tax treatment for capital investment will be far less generous than other advanced economies. We're going to fix that."

Accompanying papers committed to "boosting productivity and growth by creating the conditions for the private sector to invest more, train more and innovate more – fostering a new culture of enterprise. To do this, the government intends to cut and reform business taxes, to create a culture of enterprise and the conditions for private sector-led growth".

Sunak pledged "to consider whether the current tax system… is doing enough to incentivise business to invest in the right kinds of training". He mentioned possible reform to "the operation of the apprenticeship levy" but is evidently thinking of wider reform. This is most welcome – EAMA has highlighted to government that while levy reform is needed, it is not the main issue for most SMEs, even if they are levy payers. More important is the availability and quality of training.

Commentary and feedback

For business directly, this is therefore a holding budget - or rather spring statement - looking to the main Budget this autumn.

The challenge for manufacturing and advanced engineering is to put a robust case for incentives for public support for business improvement, capital investment and training.

Public finances are clearly challenging. The challenge is to work out how to convince a sceptical chancellor to invest in these parts of the economy rather than spend money on things that have less in the way of long-term payback.

It was disappointing to hear nothing about manufacturing, given the government's new policy imperative that "we must… reverse the historic decline in manufacturing in the UK" (in the Levelling Up White Paper). We need to hear more about that, because it will not happen on its own.

The High Value Manufacturing Catapult has a vision to double UK manufacturing's contribution to GDP, to 20%, by 2030. That is ambitious. EAMA wrote to the business secretary, Kwasi Kwarteng, seeking his view. After a lengthy delay, we got a message that it was not a vision agreed with government

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That is as may be. The vision is certainly ambitious. However, the government currently appears to be reluctant to talk about its position on manufacturing. The presence of the statement in the Levelling Up White Paper is therefore surprising – there is nothing in the paper to back it up.

We would welcome feedback, in confidence – especially with regard to what the chancellor should be doing to promote manufacturing, and what he should announce in the autumn budget to support business improvement, capital investment and skills.

Links

https://www.gov.uk/claim-employment-allowance

https://www.gov.uk/government/publications/spring-statement-2022-documents/spring-statement-tax-plan

https://www.gov.uk/government/speeches/spring-statement-2022-speech

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