Spring Statement 2022

When The Chancellor of the Exchequer, Rishi Sunak, stood up on 23 March to deliver the Spring Statement it was hard to believe, with everything that's happened during his tenure, that he's only been in the role for just over two years.

The date of the Spring Statement marked the second anniversary of the UK's first lockdown due to Covid-19 and, although Covid-19 is not yet a thing of the past, Covid-19 measures certainly seem to be.

The Spring Statement opened with brief details of what the Government has done and is doing to provide assistance to Ukraine and the remainder of the statement was underpinned by the impacts we will all see from both the aftermath of Covid-19 and the ongoing war in Ukraine.

Economy and Public Finances

Growth in 2021 reached 7.5% being a strong recovery from the prior year's 9% fall, but the Office for Budget Responsibility significantly cut their growth forecasts and are now forecasting growth of 3.8% for the current year, followed by modest growth of 1.8% and 2.1% for the following 2 years. However, the OBR have advised that forecasting is extremely uncertain in these current times.

The unemployment rate currently stands at 3.9%. This is below the OBR's original predicted rate and they are predicting falls in each of the years of the forecast.

The topic on everyone's minds though was inflation. Only 6 months ago the OBR were predicting interest rates would rise to 4% with a target inflation rate of 2%, however inflation reached 6.2% in February and the OBR are now predicting an increase to an average of 7.4%, potentially peaking at 8.7% towards the end of 2022. The UK is not alone in experiencing steep increases in inflation as the current 6.2% rate was noted as being in line with the European Union and below the United States. Every household will therefore be impacted by the significant increases in the cost of living that have been - and will continue to be - felt.

The UK debt mountain continues to build and although debt as a percentage of GDP is set to fall from 83.5% in 2022/2023 to 79.8% in 2026/27, in absolute terms our total debt will continue to grow over the foreseeable future.

The OBR are forecasting borrowing to be 5.4% for the current year falling to 3.9%, 1.9% and 1.3% for the following 3 years. The absolute level of debt at the end of March 2022 is likely to be around £2.4 trillion and the government are forecast to spend £83 billion on debt interest in the next financial year – the highest on record.

Plan to Help

With fuel prices reaching an all-time high and energy prices rising exponentially The Chancellor announced a 3 part plan to help – part of which had already been released.

1) Fuel duty will be cut by 5p per litre from 6pm on 23rd March for 12 months.
2) Energy efficient materials such as solar panels and heat pumps will be zero rated for the next five years helping households to become more energy efficient.
3) A further £500m will be given to Local authorities for the Household Support Fund.

The 3 part plan is in addition to the energy bill rebate which was announced a number of weeks ago and gives all domestic electricity customers £200 off their energy bills from October this year and a £150 Council Tax rebate for all properties in bands A-D. The £200 reduction in energy bills will be recovered in equal instalments of £40 over the following 5 years by an adjustment to your energy bill.

Tax Plan

As this wasn't a budget it was no surprise there were only a handful of tax announcements.

The first significant announcement was a change in National Insurance costs, with the threshold at which you start to pay National Insurance increasing to £12,570 in July this year. The increase represents a tax cut for employees worth over £330 a year but let's not forget that the National Insurance rate will be increasing by 1.25% from 6 April this year.

Keeping on the National Insurance theme, the Chancellor also announced an increase in the Employment Allowance from £4,000 to £5,000 from 6 April. The allowance allows eligible employers to reduce their National Insurance liability by simply reducing the amount payable to HM Revenue & Customs under the PAYE system.

The final headline grabbing announcement though was a pledge to cut the basic rate of income tax from 20p to 19p in 2024. The Chancellor stated that the impact of the reduction had already been factored into all of their forecasts and is therefore achievable before the end of this Parliament.

What Else……

There was very little else of substance in the Statement but the Chancellor did mention a review of business investment which was a possible hint that we may see a few changes to business taxation in the Autumn Budget.

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