Spring Statement 2022

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Introduction

Chancellor Rishi Sunak delivered his Spring Statement today under significant pressure to reduce the cost-of-living crisis for the UK electorate.

Media speculation in the preceding days accurately predicted that the Chancellor would cut fuel duty by 5%, a welcome cut for families and businesses. However key stakeholders highlighted that this was unlikely to reach drivers' pockets immediately - if at all - if retailers absorbed the cut.

One of the star announcements was that the National Insurance threshold is set to rise to the same level as the income tax personal allowance, £12,570, an increase of £2,690 per annum. Starting in July 2022, this is the announcement that has the potential to positively impact employers and the workforce with almost immediate effect.

The VAT cut on energy efficient measures for homeowners has widely been welcomed, however, many believe they do not go far enough. With the energy crisis bringing into sharp focus the need for homes that are more efficient and resilient, there are calls for the measures to be extended to housing associations, who are the forefront of retrofit. Warning about the risk of rising homelessness, charities have urged the Government to invest in housing benefit so that low-income families can cover the cost of their rent and increase benefits in line with inflation.

Despite attempting to offer a wide-ranging package of announcements, the reaction from stakeholders has mostly been critical that they simply do not go far enough to have a meaningful and immediate impact on the cost of living crisis facing the UK.

Shadow Chancellor Rachel Reeves lambasted Rishi Sunak for having 'too few immediate solutions', adding a comedic note by claiming he was taking inspiration from 'Alice in Sunakland'.

Industry, consumer groups, and those representing vulnerable people have all challenged whether this Spring Statement will stop a dire fall into hardship for families or protect business and jobs. However, the Office for Budget Responsibility acknowledges in their forecast that the policy measures the Chancellor has announced in the last six months have 'offset a third of the overall fall in living standards that would otherwise have occurred in the coming 12 months'.

In his speech Rishi Sunak was clear he was aware of the measures' limitations, acknowledging it was his role to deliver what was possible right now in the interests of the public. Time will tell whether the public and key stakeholders will agree with his position.

Economy & taxation

With inflation reaching 6.2% in April, the cost of living crisis was expected to dominate the Spring Statement. While Rishi Sunak previously said he couldn't fully protect people from the consequences of rising prices, he has faced huge pressure to deliver relief for families. While Labour branded Sunak 'the high-tax Chancellor' and said he should use his speech to cancel the planned National Insurance hike next month, the Chancellor stood by the Government's decision to raise rates. However, he did rise the threshold at which workers start paying National Insurance; people will be able to earn £12,570 a year without paying any Income Tax or National Insurance. The Chancellor also cut fuel duty by 5p per litre and announced plans to cut the basic rate of income tax from 20% to 19%.

Economic Forecast

- The Office for Budget Responsibility (OBR) sets out that 'given the unfolding situation in Ukraine, there is unusually high uncertainty around this outlook'.
- The OBR forecasts that the Government will continue to meet its fiscal rules. Underlying debt is falling and the current budget is in surplus in the target year.
- The OBR expects UK real GDP to grow by 3.8% in 2022. GDP is then forecast to grow by 1.8% in 2023, 2.1% in 2024, 1.8% in 2025 and 1.7% in 2026.
- The OBR expects nominal wage growth to average 3.3% across the forecast period.
- The OBR forecasts inflation to remain elevated through 2022 and 2023, peaking at 8.7% in Q4 2022. On an annual basis, inflation is forecast to be 7.4% in 2022, before decreasing to 4.0% in 2023 and 1.5% in 2024. Inflation is then forecast to be 1.9% in 2025 and 2.0% in 2026. However, there is significant uncertainty around the outlook for oil and gas prices and therefore the path of inflation over the forecast period.
- Public sector net borrowing in 2021-22 is expected to be £127.8bn, lower than forecast in October 2021.
- Public sector net debt increased from 82.7% of GDP in 2019-20 to 94.0% of GDP in 2020-21 and is expected to peak at 95.6% of GDP in 2021-22, the highest level since the 1960s.
- Debt interest spending is forecast to reach £83.0bn next year.
- As a result, the debt interest to revenue ratio is expected to pass 6%, hitting 7.6% in 2022-23. A further sustained one percentage point increase in interest rates and inflation would cost an additional £18.6bn in 2024-25, and £21.1bn by the end of the forecast.
- The OBR forecasts that the Government is meeting all its fiscal rules, with underlying debt falling and the current budget in surplus by the target year, 2024-25.
- Public sector net investment averages 2.5% of GDP over the forecast and the welfare cap is forecast to be met.
- The OBR forecasts that public sector net worth, which captures all public assets and liabilities, is improving in every year of the forecast, from -79.4% of GDP to -65.9% of GDP in 2026-27.

Addressing error and fraud

- The Government is providing an additional £48.8m of funding over three years to support the creation of a new Public Sector Fraud Authority and enhance counter-fraud work across the British Business Bank and the National Intelligence Service.
- The Government is investing a further £12m in HMRC to help prevent error and fraud in tax credits.
- The Chancellor will chair a new Cabinet Committee on Efficiency and Value for Money.

Efficiency

- The Government will double the NHS efficiency target from 1.1% to 2.2% a year
- The Government will publish guidance for a new series of reviews of Arm Length Bodies.
- The Government will launch a new Innovation Challenge across central Government departments to crowdsource ideas for how the Government can operate more effectively.

Supporting families

Energy efficiency

- The Government is expanding the Energy Company Obligation to £1bn per year for 2022-26, requiring energy suppliers to improve the energy efficiency of low-income homes.
- The Government is also developing private rental sector minimum efficiency standards.
- The Government is introducing a time-limited zero VAT rate for the installation of energy saving materials. The Northern Ireland Executive will receive a Barnett share of the value of this relief until it can be introduced UK-wide.

National Insurance

- SS announces an increase in the annual National Insurance Primary Threshold and the Lower Profits Limit from £9,880 to £12,570 from July 2022, to align with the income tax personal allowance.
- SS announces that from April 2022 self-employed individuals with profits between the Small Profits Threshold and Lower Profits Limit will continue to build up National Insurance credits but will not pay any Class 2 NICs.

Fuel duty

- SS announces a temporary 12-month cut to duty on petrol and diesel of 5p per litre. This will take effect from 6pm on 23 March on a UK-wide basis.

Household Support Fund

- The Government is providing an additional £500m for the Household Support Fund from April, on top of the £500m already provided since October 2021.

Income tax

- The Government will reduce the basic rate of income tax to 19% from April 2024. The change will be implemented in a future Finance Bill.

Supporting businesses

- The temporary £1m level of the Annual Investment Allowance has been extended to 31 March 2023.
- The Government is introducing targeted business rates exemptions for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible low-carbon heat networks with their own rates bill. These will take effect from April 2022.
- SS announces that from April 2022, the Employment Allowance will increase to £5,000.
- Ahead of April 2023, the Government is considering reforms to best support future business investment.

Education & skills

The Chancellor announced a review of the Apprenticeship Levy which will be finalised in the autumn. More flexibility will be welcome as the sector has been calling for meaningful change and flexibility for years. The Chancellor said the Government wants to incentivise business to invest in 'the right kinds of training' but didn't go into further detail about what reform might look like in Treasury documents published today.

- The Government recognises employers have frustrations with the way the Apprenticeship Levy funds can be spent within the apprenticeships system and is delivering a suite of improvements to address these.
- The Government is looking at how flexible apprenticeship training models can be supported.
- The Government's ambition is to encourage greater levels of private sector investment in employee training, both for apprentices and for employees more generally.
- The Government will consider whether further intervention is needed to encourage employers to offer high-quality employee training.

Energy & Environment

The Chancellor made energy one of his main focuses in his Spring Statement, emphasising the volatility of the energy sector even before the War in Ukraine. He outlined new measures to aid the decarbonisation of energy in homes and businesses and promised a plan in the coming weeks from the Prime Minister to build on the diversification of energy. The Shadow Chancellor responded by saying the Government missed a trick on introducing a windfall tax on oil and gas companies. Rachel Reeves expressed her disappointment over the Government's silence on energy-intensive industries, belittling the cut to VAT on building materials. Aside from decarbonising energy, the remainder of the statement made few references to the climate crisis, despite the UK's continued COP26 Presidency.

- The Government has confirmed a temporary 12-month cut to duty on petrol and diesel of 5p per litre.
- The Government is extending VAT relief available for the installation of energy saving materials (ESMs) and a time-limited zero rate for the installation of ESMs from April 2022. Northern Ireland Executive will receive a Barnett share of the value of this relief until it can be introduced UK-wide.
- An additional £500m for the Household Support Fund has been confirmed from April.
- A targeted business rates exemption for eligible plant and machinery used in onsite renewable energy generation and storage to help the decarbonisation of non-domestic buildings has been announced.
- The Government is introducing a 100% relief for eligible low-carbon heat networks with their own rates bill from April 2022, a year earlier than previously planned.
- The Government will soon be setting out an energy security plan. This will include measures across hydrocarbons, nuclear and renewables to support energy resilience and security while delivering affordable energy to consumers.

International Development

Today's Spring Statement provided no more certainty on when the Government will return to spending 0.7% of its Gross National Income (GNI) on Official Developmental Assistance (ODA). Given the current macroeconomic and fiscal uncertainty the Chancellor has said the sector will have to wait until the Budget 2022 to hear if the Government will reach its fiscal targets to increase spending in 2023/2024.

- The Government is committed to return to spending 0.7% of Gross National Income (GNI) on Official Developmental Assistance (ODA) subject to fiscal sets.
- Given the current macroeconomic and fiscal uncertainty, the Government will determine whether the ODA fiscal tests will be met for 2023-24 at Budget 2022.

Health & Social Care

The Spring Statement reaffirmed Government support for the Health and Care Levy which is due to come into force from April through a National Insurance (NI) rise. To address concerns that the additional tax will be unaffordable for working people, the Chancellor today confirmed that 2.2m people will avoid paying the Levy because of new changes to the NI threshold. This will not impact the overall budget for the health system that has already been allocated. The Chancellor called health and care the Government's 'top priority' and said the Levy will be necessary for widespread reform to the sector.

- The Government confirms that the National Insurance rise to pay for the Health and Care Levy will go ahead from April.
- The Government also confirms that from July there will be an increase in the annual National Insurance Primary Threshold and Lower Profits Limit this means that around 2.2m people will be taken out of paying the Health and Social Care Levy.
- In addition, due to an increase in Employment Allowance 670,000 businesses will not pay NICs and the Health and Social Care Levy.
- The Government is announcing that it will double the NHS efficiency target from 1.1% to 2.2% a year. This will free up the £4.75 bn to fund NHS priority areas over the next three years.

Home Affairs

The Statement saw a limited number of announcements relating to home affairs, only the Government's plan to enhance work on counteracting fraud through funding over three years.

- The Government will provide £48.8m of funding over three years to support the creation of a new Public Sector Fraud Authority and boost counter-fraud work across British Business Bank and the National Intelligence Service.

Housing

As part of a series of measures to mitigate the impact of rising energy costs on UK households, Rishi Sunak announced that for the next five years homeowners will no longer have to pay the 5% VAT on materials such as 'solar panels, heat pumps or insulation'. The policy is expected to cost the Treasury £280m up to 2026-27. It is likely this will not satisfy groups calling for more investment in the decarbonisation of housing with last autumn's Budget doing little to move the agenda forward and the Green Homes voucher being largely a failure.

- The Government is expanding the Energy Company Obligation to £1bn per year for 2022-26, requiring energy suppliers to improve the energy efficiency of low-income homes.
- The Government is developing private rental sector minimum efficiency standards.
- VAT on the installation of energy saving materials is being scrapped (previously 5%) from April 2022. The Northern Ireland Executive will receive a Barnett share of the value of this relief until it can be introduced UK-wide.
- The Government is providing an additional £500m for the Household Support Fund from April, on top of the £500m already provided since October 2021. This funding will be distributed by local authorities. The devolved administrations will receive £79m in funding through the Barnett formula.
- The Government is launching the second round of the Levelling Up Fund and publishing a refreshed prospectus, inviting bids from all eligible organisations across the UK. This Fund provides £4.8bn for local infrastructure projects, with £1.7bn already allocated to 105 successful projects from the first round.
- Following the super-deduction that will end in April 2023, the UK's capital allowances regime will include the Structures and Buildings Allowance, permitting businesses to deduct 3% a year of the cost of construction and renovation of non-residential structures and buildings.

Research & Development

The Chancellor outlined plans to incentivise innovation and ensure the UK is globally competitive. These include greater investment into R&D, as well as tax reliefs for the sector. Private investment will be necessary for the Government to reach its target of R&D investment - 2.4% of GDP by 2027.

- R&D tax reliefs will be reformed to include data and cloud computing costs. The definition of R&D for tax reliefs will also be expanded to include pure mathematics as a qualifying cost.
- The Government will legislate that overseas expenditure on R&D activities will be able to qualify for R&D tax relief where there are material factors such as geography and population which means research cannot take place in the UK. The relief will also be available when there are regulatory or other legal requirements that must take place outside the UK. Legislation will be published in draft for measures to come into effect in April 2023.
- The Government will launch a review into the Future of Compute which will provide recommendations to form the basis of a long-term plan for the Government's approach to compute.
- The Government will partner with industry-academia to create 1,000 new AI PhDs, investing £117m to create them through Centres for Doctoral Training, building on the 16 that already exist in the UK.
- The Government has recognised the volume of R&D being underpinned by mathematics leading to an expansion of the qualifying expenditure to include all mathematics. This will support nascent sectors such as AI, quantum computing, and robotics.
- The Government will consider increasing the generosity of the R&D Expenditure Credit (RDEC) to boost R&D investment in the UK.
- The Government will consider what more can be done to tackle the abuse of R&D tax reliefs, particularly in the SME scheme, ahead of Budget 2022.

Transport & Infrastructure

A key announcement of the Statement was the Government's expected commitment to supporting motorists by cutting fuel duty. However, this goes against the Government's net zero targets and is made even worse by the absence of any form of support for more environmentally friendly forms of transport, including public transport, on which some of the most vulnerable in society are reliant.

- The Government is taking measures to address the HGV driver shortage.
- Petrol and diesel are being cut by 5p per litre over a 12-month period from 6pm on 23 March.
- To support the decarbonisation of non-domestic buildings, from April 2022 the Government is introducing targeted business rates exemptions for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible low-carbon heat networks with their own rates bill.
- VAT on the installation of energy saving materials is being scrapped (previously 5%) from April 2022. The Northern Ireland Executive will receive a Barnett share of the value of this relief until it can be introduced UK-wide.
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- Following the super-deduction that will end in April 2023, the UK's capital allowances regime will include the Structures and Buildings Allowance, permitting businesses to deduct 3% a year of the cost of construction and renovation of non-residential structures and buildings.
- Following the super-deduction that will end in April 2023, the UK's capital allowances regime will 100% First Year Allowances for zero-emission cars.

Welfare

The Spring Statement promises to address the cost of living for working families, mainly through increasing the National Insurance threshold, rather than uplifting support directly through benefits. The Chancellor has extended the Household Support Fund which is delivered through local authorities in England and supports families with the cost of essentials such as food, clothing, and utilities. The funding was announced last September and has been doubled today.

- The Government is providing an additional £500m for the Household Support Fund from April, on top of the £500m already provided since October 2021, bringing total funding to £1bn. This will be distributed through local authorities in England. The devolved administrations will receive an additional £79m in funding through the Barnett formula.
- The Government is allocating £25.3m of the Changing Places Fund to install over 500 life-enhancing Changing Places toilets. An additional £6.5m will be allocated to areas where there is little or no provision.

Stakeholder reaction

Resolution Foundation
'I really can't believe this package does next to nothing for those getting hardest hit by rising prices - those who are disabled and not working just got told they are on their own (after losing £1000 income in the Autumn)' – *Torsten Bell, Chief Executive*

Greenpeace
'As expected the chancellor has reached for the lever marked 'fuel duty' and hopes for an impact on the cost of living crisis. The seriousness of the moment needs bigger thinking. A fuel duty cut gives more money back to the driver of an expensive gas-guzzling SUV than the average punter.' – *Doug Parr, Policy Director*

Logistics UK
'With average fuel prices reaching the highest level on record and rising inflation, there has been an unsustainable burden on logistics businesses which operate on very narrow margins of around 1%; the Chancellor's decision today will help to ensure operators can continue to afford supplying the nation with all the goods it needs, including food, medicine and other essential items. Fuel is the single biggest expense incurred by logistics operators' –
Elizabeth de Jong, Director of Policy

NHS Providers
'While the national insurance threshold has been increased in the spring statement, trust leaders will be reassured that the NHS budget over the Spending Review period has not been reduced by a corresponding amount. Trusts remain concerned though about the scale of savings they will be expected to make given the significant operational pressures they are now facing.' - *Saffron Cordery, Deputy Chief Executive*

Royal Pharmaceutical Society
'With the rise in National Insurance next month, patients will now be looking for the Chancellor to ensure the extra money makes a difference where it is needed most. This means looking beyond headline figures on capital spending towards a radical rethink on the Government's approach to prevention, personalised care and helping people stay healthy.' - *Thorrun Govind, RPS England Board Chair*

British Beer and Pub Association
'We are very disappointed that the Chancellor decided not to extend the 12.5% rate of VAT for hospitality. The sector remains on a knife-edge as it emerges from the pandemic and the impact of the recent energy crisis and invasion of Ukraine has ensured the turbulent times will continue for pubs and brewers just as we had hoped to build the road to recovery. The coming months could be some of the hardest yet for our pubs and brewers' - *Emma McClarkin, Chief Executive.*

Money Saving Expert

'This is the big one. Increasing the National Insurance threshold so it now matches Income tax from July. That £3,000 rise of threshold to £12,570 is a gain of £330 a year And more than offsets the 1% rise for many on lower incomes. Good call' – *Martin Lewis, Founder*

'If that's all he's doing on energy - it is limited and won't impact the majority of households who will see a likely £1,300 average increase in year-on-year bills by October. My head has sunk. I just hope there's a rabbit to come out of the hat.' – *Martin Lewis, Founder*

Social Market Foundation

'The Spring Statement failed to measure up to the hardship in store for the poorest families, who face deep economic pain unless further action is taken. The hit to living standards is set to be on a similar scale to the worst recessions, but the Chancellor's response was far from the adaptable 'whatever it takes' approach he took to the pandemic response. The changes to national insurance and cuts to fuel duty will help some households, but do much less for the poorest and more vulnerable. The £500 million added to the Household Support Fund is far too little.' – *Dr Aveek Bhattacharya, Chief Economist*

Nuffield Trust

'Amid a cost of living crisis, it is not surprising that the Treasury will be scrutinising the increased spending on the NHS raised by higher taxes and looking for cost efficiencies. Changes to national insurance threshold announced today will provide some welcome support to low earners, and will not reduce the amount of money already committed to health and care*. But by choosing to put tax cuts above spending the Chancellor has made it less likely that health and care will see any further increases in funding during this parliament.' – *Nigel Edwards, Chief Executive*

Chartered Institute of Building

'We recommend that the Government works with the construction industry to ensure that the reduced VAT for home sustainable energy solutions helps address whole home carbon emissions, as opposed to isolated measures. This is something we highlighted in the Government's Heat and Buildings Strategy, recommending Government to utilise the expertise of the built environment to undertake a coordinated and long-term approach to decarbonise existing homes, instead of isolated activities and private market initiatives.' - *Eddie Tuttle, Director of Policy*

UNISON
'The government has merely tinkered around the edges of the living standards crisis. Tweaking tax thresholds will boost the coffers of the wealthy, not provide help to those in most need. Promises to reduce taxes in future won't cut the mustard with families living a financial hell now. Financial pain at the pumps won't end with a few pence off fuel duty. Less affluent households are being driven off the roads.' - *Christina McAnea, General Secretary*

Rail Delivery Group
'We recognise the desire to help those being hit by short term fuel price rises with a temporary cut in duty.

In the long term, if the government is serious about meeting net zero targets it cannot make rail less competitive. Passenger and freight trains help to clean up the air in towns and cities and reduce congestion.

That's why we need an even approach to taxes, fares and charges across all modes of transport, so the cost of each reflects its environmental impact.' - *Andy Bagnall, Director General*

Joseph Rowntree Foundation
'The Chancellor has acted recklessly in pressing ahead with a second real-terms cut to benefits in six months, while prioritising people on middle and higher incomes. Changes to National Insurance won't help those who aren't working or can't work due to disability, illness or caring responsibilities, and exposes them to an increased risk of becoming destitute.' - *Dave Innes, Head of Economics*

Taxpayers' Alliance
'Taxpayers suffering through a cost of living crisis will welcome wins on fuel duty and income taxes. Soaring inflation has given the chancellor extra wiggle room, but this tax plan needs to come alongside an efficiency drive to eradicate waste and tackle the colossal cost of covid. Rishi must get a grip on spending if he wants to restore balance to the public finances while boosting growth and letting taxpayers keep more of their own money. Though a cut in income tax is welcome, in reality the Treasury is taking with one hand to give away with the other.' – John O'Connell, Chief Executive

Adam Smith Institute
'At a time when gas prices are only getting higher, we don't need to be gaslit by a Chancellor who continuously claims to be a low tax fiscal conservative… In an ideal world, the Chancellor would have scrapped the planned National Insurance Contribution rise, although it is encouraging to see that he plans to raise the NIC threshold in line with income tax thresholds… All in all, the Spring Statement leaves a lot to be desired. There are promising mentions of a review of full expensing policy and increasing private sector investment, but more immediate relief for the rising cost of living and our oppressive tax burden are needed.' - *Morgan Schondelmeier, Director of Operations*

British Chambers of Commerce
'The Spring Statement falls short of the action businesses needed to see today. While there are some positive announcements that firms will welcome, it did not fundamentally address the huge cost pressures they are facing.

Businesses will be pleased that the employment allowance has been increased. This long running ask of the BCC will provide a small amount of financial headroom for firms facing rising costs. But today was a missed opportunity to rebuild and renew the economy and ensure business has the resilience to weather the uncertain and volatile times ahead.' - *Shevaun Haviland, Director General*

Railway Industry Association
'The railway industry appreciates we are in turbulent economic times, and so it is welcome that Chancellor Rishi Sunak today set out some helpful support for businesses generally, including on innovation. However, the Chancellor's statement could have provided more certainty for key economic sectors like rail. Certainty has little financial implication for the Government but really does play a crucial part in supporting rail sector jobs and investment.' - *Darren Caplan, Chief Executive*

Federation of Master Builders
'With 29 million homes in the UK, of which many are leaky and energy inefficient, decarbonising our existing housing stock represents an important piece of the net zero puzzle. Historically, consumers have not been properly incentivised to commission green upgrades to their homes. This VAT cut will help householders insulate their home at a time when energy bills are escalating. It will also provide a much-needed boost to local builders operating in the retrofit market. The Government now needs to build on the VAT cut and implement a long term National Retrofit Strategy to provide business certainty.' - *Brian Berry, Chief Executive*

Chartered Institute of Housing
'We are disappointed that measures announced today will not come close to bridging the gap between what the lowest income households have and what they need. The increase to the Household Support Fund, whilst welcome, is not a solution to support low income families in the face of a cost of living crisis which sees the cost of essentials rising at the highest rate in a generation. It is a sticking plaster of discretionary payments which local authorities must administer.' - *Rachael Williamson, Head of Policy and External Affairs*

Institute for Fiscal Studies
'The cuts to income tax and National Insurance are effectively paid for by increasing revenues as a result of fiscal drag. The freezing of the income tax personal allowance and higher rate threshold turn out to be much bigger tax rises than first intended. As a result, almost all workers will be paying more tax on their earnings in 2025 than they would have been paying without this parliament's reforms to income tax and NICs, despite the tax cutting measures announced today. And by keeping to previously announced cash plans for public spending Mr Sunak is being considerably less generous to public services than he intended when he set out his spending plans in the Autumn.' – *Paul Johnson, Director*