GUIDE TO

SPRING STATEMENT 2019

WHAT SHOULD YOU TAKE AWAY FROM THIS YEAR’S CHANCELLOR’S ANNOUNCEMENT?
Set against continuing uncertainty over Brexit and just hours before MPs were due to vote on whether to exit the EU without a deal, Mr Hammond devoted much of his speech to the possible effects that leaving the European Union could have on the UK’s finances.

The Chancellor announced that the UK economy continues to grow, with wages increasing and unemployment at historic lows, providing a solid foundation on which to build Britain’s economic future.

With borrowing and debt both forecast to be lower in every year than at last year’s Budget, the Chancellor set out further investments in infrastructure, technology, housing, skills and clean growth, so that the UK can capitalise on the post-EU exit opportunities that lie ahead.

The Chancellor also confirmed that the government will hold a Spending Review which will conclude alongside the Budget. This will set departmental budgets, including three-year budgets for resource spending, if an EU exit deal is agreed. Ahead of that, the Chancellor announced extra funding to tackle serious violence and knife crime, with £100 million available to police forces in the worst affected areas in England and Wales.

Welcome

Spring Budget 2019

Philip Hammond, the Chancellor of the Exchequer, delivered his Spring Statement 2019 to Parliament on 13 March.

Keeping your financial plans on track

In our ‘Guide to Spring Statement 2019’ we reveal the key announcements made by the Chancellor. If you would like to review what action you may need to take to keep you, your family and your business on track – or if you have any further questions – please contact us. We look forward to hearing from you.
Spring Statement 2019
Update on the overall health of the economy

The Spring Statement is an opportunity for the Chancellor to provide an update on the overall health of the economy and the Office for Budget Responsibility’s (OBR) forecasts for growth and the public finances.

It is also an opportunity to update on the progress made since Budget 2018, and to launch consultations on possible future changes for the public and business to comment on. The Spring Statement doesn’t include major tax or spending changes - these are made once a year at the Budget.
Philip Hammond, the Chancellor of the Exchequer, described the economy as 'remarkably robust' and added that it has 'defied expectations', pointing to improvements in government finances, wage growth and 'on target' inflation levels. These are the key takeaways from Spring Statement 2019.

**Growth**
- Forecast of 1.2% growth for 2019
- Then 1.4% in 2020, 1.6% in 2021, 2022 and 2023
- In October, growth was forecast at 1.6% for 2019, 1.4% for 2020, 1.4% in 2021, 1.5% in 2022 and 1.6% in 2023

**Borrowing**
- Forecast for borrowing to be £3bn lower in 2018/19 than forecast at the Autumn Budget
- Borrowing forecast to be £29.3bn in 2019/20, then £21.2bn in 2020/21, £17.6bn in 2021/22, £14.4bn in 2022/23 and £13.5bn in 2023/24
- In October, borrowing was forecast to be £25.5bn in 2018/19, then £31.8bn in 2019/20, £26.7bn in 2020/21, £23.8bn in 2021/22, £20.8bn in 2022/23 and £19.8bn in 2023/24

**Debt**
- Debt is forecast to be 82.2% as a share of GDP in 2019/20
- Debt as a share of GDP is forecast to fall to 79% in 2020/21, 74.9% in 2021/22, 74% in 2022/23 and finally 73% in 2023/24

**Brexit**
- Direct message issued to parliament that building a stronger country was only possible by avoiding no-deal Brexit
- £15.4bn headroom in the public finances that could be used in a no-deal Brexit increased to £26.6bn
- No-deal Brexit would cause the economy to be smaller and weaker in future, leading to higher prices for consumers
- No-deal Brexit would mean a ‘short to medium-term reduction in the productive capacity of the economy’
- Tax and spending responses and Bank of England policy changes could only ever be temporary to handle a no-deal Brexit, to avoid higher levels of inflation

**Spending Review**
- Treasury will conduct a full spending review before the summer recess, to be concluded before the Autumn Budget
- There will be a ‘deal dividend’ from lifting business uncertainty, encouraging firms to invest. Government able to spend some of the money left in reserve for a no-deal scenario

**Productivity**
- Capital budgets set to protect ‘record levels’ of spending, while ensuring this will boost productivity
- Government aims to ‘slay once and for all the twin demons of low productivity and low wages and build an economy that works for everyone’

**Technology**
- Investment packages for laser technology and nuclear research
- Funding for a new supercomputer at Edinburgh University

**Technology Companies**
- Government will make technology companies ‘pay their fair share’ and protect consumers from online harm
- ‘This government will lead the world in delivering a digital economy that works for everyone’

**Environment**
- ‘Future homes standard’ announced to mandate the end of fossil-fuel heating systems in all new houses from 2025
- Comprehensive review of the link between biodiversity and the economy by Professor Partha Dasgupta from Cambridge University
- Additional £100m to be made available immediately over the course of the next year, ring-fenced to pay for extra police overtime targeted specifically at knife crime
- Free sanitary products available in secondary schools in England from the next school year
Deal dividend
Brexit war chest to boost economy

The Chancellor of the Exchequer, Philip Hammond, has promised more spending if a no-deal Brexit is avoided and pledged to spend a £26.6bn Brexit war chest to boost the economy if MPs vote to leave the European Union with a deal. This is almost double the £15.4 billion estimated by the Office for Budget Responsibility (OBR) in October.

The Chancellor used his Spring Statement to warn that a disorderly Brexit would deal a ‘significant’ blow to economic activity in the short term.

Mr Hammond warned that the country’s economic progress will be at risk in a no-deal Brexit and said he was ‘confident’ that the Commons will agree a smooth and orderly EU withdrawal ‘over the coming weeks’.

Mr Hammond told MPs: ‘A no-deal Brexit would deliver a significant short-to medium-term reduction in the productive capacity of the British economy. And because our economy is operating at near full capacity, any fiscal and monetary response would have to be carefully calibrated not to simply cause inflation.’

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He said the decision by MPs to reject Theresa May’s Brexit deal had left ‘a cloud of uncertainty hanging over our economy’.

The latest figures from the OBR forecast that the UK economy will grow at the slowest pace since the financial crisis this year. The OBR cut its 2019 growth forecast to 1.2%, the weakest growth rate since 2009.

That is a significant cut from the 1.6% expansion predicted by the government’s economic watchdog last October. After that, growth is expected to rebound.

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The government is expected to borrow £22.8 billion this financial year to plug the gap between the money it spends on public services and the tax revenues it collects. This is almost £3 billion lower than the £25.5bn predicted by the OBR in the October Budget.

The OBR expects the improvement in the public finances to continue in future years, helped by stronger tax receipts and lower spending on debt interest. While borrowing is then expected to rise to £29.3bn next year, it is then predicted to fall over the next four years.

Enterprise Investment Schemes

In his Spring Statement, Philip Hammond, the Chancellor of the Exchequer, announced the government is set to review what funds will be allowed in Enterprise Investment Schemes (EIS).

The government says it will publish approved funds guidelines for comment on what investments should be allowed in the scheme designed to channel money to start-up companies, alongside draft legislation.

It is also set to review why another tax relief scheme to support charities and social enterprise has not found expected popularity with investors.

The Social Investment Tax Relief (SITR) scheme was launched in 2014, and is one of the four tax-efficient vehicles alongside EIS which seek to support small and medium and social enterprises, with others being the Seed Enterprise Investment Scheme and Venture Capital Trusts.

The government will now review the scheme, the impact it has had on social finances and how the SITR scheme has been used to date.

Since SITR launched, only 50 social enterprises have received investment through the scheme and these enterprises have raised a total of £5.1m in funds. Announced in Autumn Budget 2017, the Chancellor doubled the maximum EIS allowance limit from £1m to £2m.

The 2017 Budget also introduced a ‘risk condition’ – whereby there must be ‘a significant risk that there will be a loss of capital of an amount greater than the net investment returns’ to qualify for EIS treatment.
Fixing the broken housing market

Critical to unlocking productivity growth and making properties more affordable

The Chancellor said the government is determined to fix the broken housing market. Building more homes in the right places is critical to unlocking productivity growth and makes housing more affordable. In the Autumn Budget 2017, he set out a comprehensive package of new policies to raise housing supply by the end of this Parliament, which is on track to reach 300,000 a year on average. The Spring Statement set out further steps to deliver this ambition.

A consultation on Infrastructure Finance is to be published, seeking views on how the government can best support private infrastructure investment in the context of the UK’s changing relationship with the European Investment Bank.

Mr Hammond reiterated the government’s commitment to publishing a comprehensive National Infrastructure Strategy – the first of its kind – setting out the government’s priorities for economic infrastructure and responding to recommendations in the National Infrastructure Commission’s National Infrastructure Assessment.

£717 million from the £5.5 billion Housing Infrastructure Fund to unlock up to 37,000 homes at sites including Old Oak Common in London, the Oxford-Cambridge Arc and Cheshire.

Through the Affordable Homes Guarantee Scheme, Mr Hammond announced the government will guarantee up to £3 billion of borrowing by housing associations in England to support delivery of around 30,000 affordable homes.

There will be further progress on delivering growth in the Oxford-Cambridge Arc, including £445 million from the Housing Infrastructure Fund to unlock over 22,000 homes, and a joint declaration with local partners, affirming a shared vision for the Arc.

Up to £260 million will be allocated for the Borderlands Growth Deal, which, on top of the £102 million announced recently for Carlisle from the Housing Infrastructure Fund, means up to £362 million UK Government funding into the Borderlands area.
Building a stronger, fairer economy

Inflation expected to stay close to or on target for the duration of the forecast

The Chancellor announced that the government’s efforts to build a stronger, fairer economy are paying off. He said the economy remains resilient and is forecast to continue growing.

There have been nine consecutive years of growth, and the Office for Budget Responsibility (OBR) has forecast further growth every year for the next five years.

Since 2010, the economy has grown faster than that of France, Italy and Japan.

The OBR expects inflation to stay close to or on target for the duration of the forecast.

Business investment is forecast to start growing again from 2020, once businesses have the certainty they need to invest.

Employment continues to break records since 2010. There are now over 3.5 million more people in work, and the OBR forecasts that employment will increase by a further 600,000 by 2023.

The unemployment rate of 4.0% is the lowest rate since 1975. The OBR forecasts that it will remain near historic lows over the next five years.

Wages are increasing at their fastest pace in over a decade and are forecast to continue growing faster than inflation, which means more money in people’s pockets.

Since 2010, there are a million fewer workless households and every region and nation of the UK has higher employment and lower unemployment.

The Chancellor confirmed the remit for the Low Pay Commission in 2019 and said a new remit would be extended in 2020. He also announced a new review into the effect of minimum wages around the world, and whether the UK could benefit from implementing innovations from other countries.

This was a recommendation of the Furman Review.

He announced the government is committed to funding the Joint European Torus programme in Oxfordshire as a wholly UK asset in the event the Commission does not renew the contract, giving the world-leading experts working at the facility certainty to continue their ground-breaking fusion energy research.

£81 million is to be invested in Extreme Photonics (state-of-the-art laser technology) at the UK’s cutting-edge facility in Oxfordshire.

There will be a boost to the UK’s genomics industry with £45 million for Bioinformatics research in Cambridge.

£79 million funding announced for a new supercomputer in Edinburgh – five times faster than existing capabilities – whose processing power will contribute to discoveries in medicine, climate science and aerospace, and build on previous British breakthroughs including targeted treatments for arthritis and HIV.
UK open for business and international visitors

Improving the flow of passengers and the overall experience at the UK border

From June 2019, citizens of the US, Canada, New Zealand, Australia, Japan, Singapore and South Korea will be permitted to use e-gates at UK airports and at Eurostar terminals. This will significantly reduce queues and improve the flow of passengers and the overall experience at the UK border.

Landing cards will also begin to be abolished from June 2019. This will reduce bureaucracy for travellers and speed up the processing of passengers on arrival in the UK.

Public finances reach a turning point

Government’s fiscal responsibility and the hard work

Mr Hammond announced that due to the government’s fiscal responsibility and the hard work of the British public, the public finances have reached a turning point.

Borrowing has already been reduced by four-fifths since 2009/10 and debt has begun its first sustained fall in a generation.

Debt fell in 2018 and is forecast to fall continuously to 73.0% of GDP in 2023/24, compared to the peak of 85.1% in 2016/17.

The public finances have continued to improve since the autumn. Borrowing and debt are lower in every year of the Spring Statement 2019 forecast than at Budget 2018.

The Chancellor announced that the government is focused on keeping debt falling so as to not burden the next generation. The government is taking a balanced approach, reducing borrowing and debt, while supporting public services, investing in the economy and infrastructure, and keeping taxes low.
Investment in energy efficiency and clean growth

‘25 Year Environment Plan’ builds on government commitment


To help smaller businesses reduce their energy bills and carbon emissions, the government is launching a call for evidence on a Business energy efficiency scheme to explore how it can support investment in energy efficiency measures.

So that wildlife isn’t compromised in delivering necessary infrastructure and housing, the government will mandate net gains for biodiversity on new developments in England to deliver an overall increase in biodiversity.

To help ensure consumer energy bills are low and homes are better for the environment, Mr Hammond announced the government will introduce a Future Homes Standard by 2025, so that new-build homes are future-proofed with low carbon heating and world-leading levels of energy efficiency.

The government will launch a global review into the Economics of Biodiversity to explore ways to enhance the natural environment and deliver prosperity.

To give people the option to travel ‘zero carbon,’ the government will launch a call for evidence on Offsetting Transport Emissions to explore consumer understanding of the emissions from their journeys and their options to offset them. This will also look into whether travel providers should be required to offer carbon offsets to their customers.

The government will support the call from the Ascension Island Council to designate 443,000 square kilometres of its waters as a Marine Protected Area, with no fishing allowed, to help protect critical habitats.
Mr Hammond announced updates to apprenticeship reforms announced at the Budget which mean that, from 1 April, employers will see the co-investment rate they pay cut by a half from 10% to 5%, at the same time as levy-paying employers are able to share more levy funds across their supply chains, with the maximum amount rising from 10% to 25%.

The government has appointed Professor Arindrajit Dube to undertake a review of the latest international evidence on the impact of minimum wages, to inform future National Living Wage policy after 2020.

To tackle period poverty in schools, the Department for Education will lead work to develop a national scheme in England to provide free sanitary products to girls in secondary schools.

Financial services and markets post Brexit

New legislation outlining plans on how to maintain regulatory standards

In the immediate aftermath of Britain’s exit from the EU, there will be new Financial Services legislation outlining plans on how to maintain regulatory standards, remain open to international markets and new trading opportunities for financial firms.

The government will consult on how to ensure the Financial Services regulatory framework can adapt once the UK has left the EU. There are no specific details yet, as at the time of writing the terms of the UK’s exit have not been decided.

This Spending Review had a renewed focus on the outcomes achieved for the money invested – supporting a high-growth economy with public services that work for everyone.

Spending Review to conclude alongside the Budget

Renewed focus on the outcomes achieved for the money invested

The Chancellor also confirmed that the government will hold a Spending Review which will conclude alongside the Budget. This will set departmental budgets, including three-year budgets for resource spending, if an EU exit deal is agreed.

As at the past three Spending Reviews, the government will run a Zero-Based Review of capital spending where each programme or project will be scrutinised from the bottom up, ensuring the maximum return for the country.

This Spending Review also had a renewed focus on the outcomes achieved for the money invested – supporting a high-growth economy with public services that work for everyone.
Tackling violent crime

£100 million funding for police

A further £100 million funding will be made available to police forces in the worst affected areas in England and Wales for knife and violent crime, the Chancellor of the Exchequer, Philip Hammond, announced in the Spring Statement.

This funding for 2019/20 will ease policing pressures and pay for police forces to have more officers available to respond to crime or patrol in communities.

The funding will also be invested in Violence Reduction Units, bringing together a range of agencies including health, education, social services and others, to develop a multi-agency approach in preventing knife crime altogether. The units will be based on models used in Glasgow, where homicide rates fell by 54% from 2006/07 to 2015/16.

The Chancellor said, ‘We know action is needed now to tackle knife crime, which is blighting communities around the country. That’s why I’m announcing that I’ve heard the calls from the police and the families affected by this devastating crime, and will make available an additional £100 million to be spent over the course of the next year.’

This money will be ring-fenced to pay for increased police presence and patrolling to make our streets safer. But it will also go further in tackling the causes of this crime by investing in Violent Crime Reduction Units in the worst affected areas.

The new funding covers one year, and is made up of £80 million Treasury funding with £20 million from Home Office reprioritisation for the financial year 2019/20.

The majority of the funding will be provided to Police and Crime Commissioners for the seven police forces where serious violence levels are highest and which make up around 70% of knife crime. Those forces cover London, West Midlands, Merseyside, South Yorkshire, West Yorkshire, South Wales and Greater Manchester.

Final allocations to Police and Crime Commissioners will be confirmed in due course. Separately, the Home Secretary has committed to tracking the impact that this funding is having and to work with policing to make sure this issue is prioritised and tackled.

This is on top of the £970 million of additional money that policing is already due to receive from April 2019, including additional funding that the Chancellor announced at last year’s Budget. Police and crime commissioners have already committed to the recruitment and training of nearly 3,000 extra police officers. ✗
Plan for the life you want

If you would like to discuss any of the announcements made during the Spring Statement 2019 and what their implications could mean to you, your family and your business, please contact us. We look forward to hearing from you.