

The Chancellor's Spring Statement

March 2019

The Pagefield View

OVERVIEW

Chancellor Philip Hammond delivered his Spring Statement this afternoon against a backdrop of mounting political turmoil over Brexit. Sandwiched in between two crucial Brexit votes, the Chancellor delivered what has been described as a “low key” statement to the House of Commons this afternoon, given tonight’s Brexit vote on no-deal – this is not a Spring Statement that will make tomorrow’s front pages.

Prior to his statement, the Government published two important documents on its no-deal planning: one which sets out the UK government’s plans for the Northern Irish border in the event of a no-deal scenario and the other on its proposed trade tariffs.

On the Irish border: Britain would unilaterally waive checks on all goods crossing the Northern Ireland border in the event of a no-deal Brexit, as part of a temporary regime in the days immediately after the UK’s exit. This would permit the unmonitored flow of goods and officials have voiced concerns about exploitation of the new system by smugglers. If this measure is instigated, the UK would seek to immediately enter talks with the EU and the Irish government to find a long-term solution.

On tariffs: The UK would temporarily remove all tariffs on 87% of imported goods in the event of a no-deal Brexit, in order to avoid “potential price spikes” hitting consumers. This emergency tariff regime would apply for up to 12 months, officials say. A mixture of tariff rates would be retained for some goods, however, including on agricultural imports and cars.

Eye catching announcements in today’s statement included 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.

KEY TAKEAWAYS

More consultations

Unsurprisingly, the Chancellor used today’s Spring Statement to announce yet more consultations and reviews. But many of these will have a direct bearing on future spending and the shape of regulation in the UK, meaning businesses will need to engage.

In a move that will be welcomed by the Commons Digital, Culture, Media and Sport Committee, the Chancellor has asked the Competition and Markets Authority to look at the digital advertising market. There will also be a consultation on how to replace PFI contracts, a review on ending low wages and a global review into the economics of biodiversity – all of which will attract scrutiny from the business community.

Going green

Building on one of the few areas where this government has made significant inroads, the Spring Statement contained an unusually high proportion of announcements on sustainability. Increasing the proportion of green gas in the grid, designating 443,000 square kilometres of the UK’s waters as a Marine

Protected Area and mandating net increases in biodiversity on new developments will be welcome news to many environmental campaigners.

Once again, however, there will be areas of concerns for energy companies operating in this space with a commitment to end fossil-fuel heating in all new houses from 2025.

Open for business

The overall message from the Treasury today was that the UK is open for business. No matter how incongruous this may seem – coming on the back of some dire “no deal” warnings and the Prime Minister’s announcement of zero tariffs across large swathes of the economy – the Chancellor is clearly trying to manage economic instability. This was the rationale behind visa exemptions for PhD-level occupations, the abolition of landing cards from June 2019 and the rolling out of e-gates in UK airports for certain countries.

This will be seen as window dressing by many watching today but it is part of the Government’s wider efforts to attract international investors and send a signal across the globe that the UK is open for business.

PUBLIC FINANCES

The Office for Budget Responsibility (OBR) published their latest forecast shortly after the Chancellor finished his statement and noted that its forecast for the economy has been produced against the backdrop of “considerable uncertainty over the next steps in the Brexit process.”

- GDP growth for 2019 has decreased from a rate of 1.6% in October 2018 to 1.2% at present
- Business investment has fallen for a second successive calendar year – its weakest performance since the financial crisis in the past decade
- Public sector net borrowing is now expected to come in at £21.2 billion (1.1% of GDP), down £2.7 billion from October 2018. This has been credited to an increase in tax receipts and lower debt interest



Economy

- There have been nine consecutive years of growth, and the OBR has forecast further growth every year for the next 5 years
- Since 2010 the economy has grown faster than 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 next year, once businesses have the certainty they need to invest
- Since 2010 there are over 3.5 million more people in work, and the OBR forecast employment will increase by a further 600,000 by 2023

WHAT WAS ANNOUNCED

Tech and the new economy

- The Chancellor welcomed the Furman Review, an independent review of competition in the digital economy, which has found that “tech giants” have become increasingly dominant. The Chancellor announced that the Government will respond later in the year to the review’s calls to update competition rules for the digital age, opening the market up and increasing choice and innovation for consumers
- The Chancellor has written to the Competition and Markets Authority (CMA) asking them to carry out a market study of the digital advertising market as soon as is possible. This was a recommendation of the Furman Review

Open and competitive UK

- 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
- Landing cards will also begin to be abolished from June 2019
- Research institutes and innovating businesses will benefit from an exemption for PhD-level occupations from the cap on high-skilled visas from this autumn

Clean growth

- 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
- 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
- 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

Education and skills

- Updates to apprenticeship reforms announced at the Autumn Budget mean from April 1st employers will see the co-investment rate they pay cut by half from 10% to 5%
- The Department for Education will lead work to develop a national scheme in England to provide free sanitary products to girls in secondary schools

- The Government has appointed Professor Arindajit Dube to undertake a review of the latest international evidence on minimum wages, to inform future National Living Wage policy after 2020

Housing & Infrastructure

- The Government announced a consultation on Infrastructure Finance, 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
- Reiterated the Government's commitment to publishing a comprehensive National Infrastructure Strategy setting out the Government's priorities for economic infrastructure and responding to recommendations in the National Infrastructure Commission's National Infrastructure Assessment
- The Government announced £717 million from the £5.5 billion Housing Infrastructure Fund to unlock up to 37,000 homes
- The Government will guarantee up to £3 billion of borrowing by housing associations in England to support delivery of around 30,000 affordable homes

Spending review

- The Chancellor also confirmed that the Government will hold a spending review which will conclude alongside the Budget. This will set departmental budgets, including 3 year budgets for resource spending, if an EU exit deal is agreed

REACTION

In the midst of an increasingly politically febrile week, reaction to the Chancellor's Spring Statement focused less on the financial figures, and more on his warnings to Parliament stressing the importance of avoiding a no-deal scenario, and the subsequent outcome for the Government.

Political

- **John McDonnell MP, Shadow Chancellor:** " We have just witnessed a display by the Chancellor of this government's toxic mix of callous complacency over austerity and its grotesque incompetence over the handling of Brexit."

Media

- **Robert Peston, Political Editor, ITV News:** "Philip Hammond calls on MPs to come together in next 24 hours to at the last agree a negotiated exit from the EU. Although he is not explicitly disloyal to Theresa May, no hint of regret that MPs set to take 29 March no-deal Brexit off table."
- **James Forsyth, Political Editor, The Spectator:** "Free votes, Cabinet collective responsibility in tatters: will be fascinating to see whether a new PM can return to the status quo ante, or whether this is the new normal."

Industry

- **Edwin Morgan, Interim Director General, Institute of Directors:** "Warm words and proposed consultations are not enough for businesses at a time when confidence is rock bottom and investment plans are eroding away, and many will find it difficult to tread water until more decisive action at the Autumn Budget."

- **Helen Dickinson, Chief Executive, British Retail Consortium:** “It is disappointing that the Spring Statement does nothing to support struggling high streets at a time when they are weighed down by the twin burdens of skyrocketing business rates and Brexit uncertainty.”

WHAT NEXT?

The impact of today's announcements will only begin to become clear when the Treasury commences its Spending Review before the summer recess. Before then, the Government and Parliament will have to decide on the shape of Britain's withdrawal from the European Union. The latter, as the Chancellor pointed out, will be key to unlocking an economic dividend or committing an act of economic self-harm if the country is forced to leave without a deal.

Politically, there are questions over whether anything announced today will cut through to the public and translate into some much-needed political stability. Philip Hammond may win plaudits for committing £100m available to police forces in England and Wales. Others will simply say this was long overdue or not enough.

Today does surely confirm what many already suspected about a long term move to regulate the digital economy. Watch for reactions from industry and policymakers on the launch of the Furman Review. Similarly, measures today to reduce carbon emissions will be welcomed by campaigners while high emitting industries will be poring over the detail in the consultations to reduce dependence on fossil fuels.

With all eyes on business confidence, perhaps the most important aspect of today's Statement was the economic update. The Conservatives can still boast a jobs miracle with the OBR rowing in behind them. And there are incremental improvements to the public finances with debt still forecasted to reduce year-on-year albeit slowly.

The bottom line remains that Brexit could either bolster the British economy, amplifying the OBR's forecast, or possibly significantly impede growth in the immediate future. The Prime Minister, Government and Conservative's fate is intimately tied to this.