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What you really need to know about the 2022 Spring Statement

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Spring Statement 2022

All Chancellors have to respond to events, but few have had to be quite as responsive as Rishi Sunak. Just days after his first Budget, back in March 2020, the UK entered its first lockdown from the Covid-19 pandemic – and Sunak suddenly had to find many extra £billions to fund the furlough scheme and various other support measures. Then, later in the same year, came the country's full departure from the EU and the need for even more economic planning.

And so it was with this year's Spring Statement, too. This occasion had originally been envisioned as a simple update; a chance to inform the public of the Office for Budget Responsibility's latest economic and fiscal forecasts. But, as the day drew closer, it became clearer that Sunak would have to do something more. The terrible war in Ukraine – and its effects on the cost of living – demanded legislation, not just forecasting.

In the end, what Sunak delivered was something between the update he originally planned and a full-blown Budget. The Statement didn't contain many policies, but the ones that were there were significant. For example, this July, the earnings threshold at which people have to start making National Insurance Contributions will be increased by almost £3,000 to £12,570; effectively a tax cut worth £hundreds a year for millions of workers. Further afield, in 2024, the Chancellor has promised to cut the main rate of Income Tax from 20% to 19%.

What was there specifically for fleets and motorists? Again, not much – but something significant. With immediate effect, the main rate of Fuel Duty will be cut by 5p for a year, to offer temporary relief from record pump prices. This is a welcome measure, of course, but there are some caveats that ought to be applied to it…

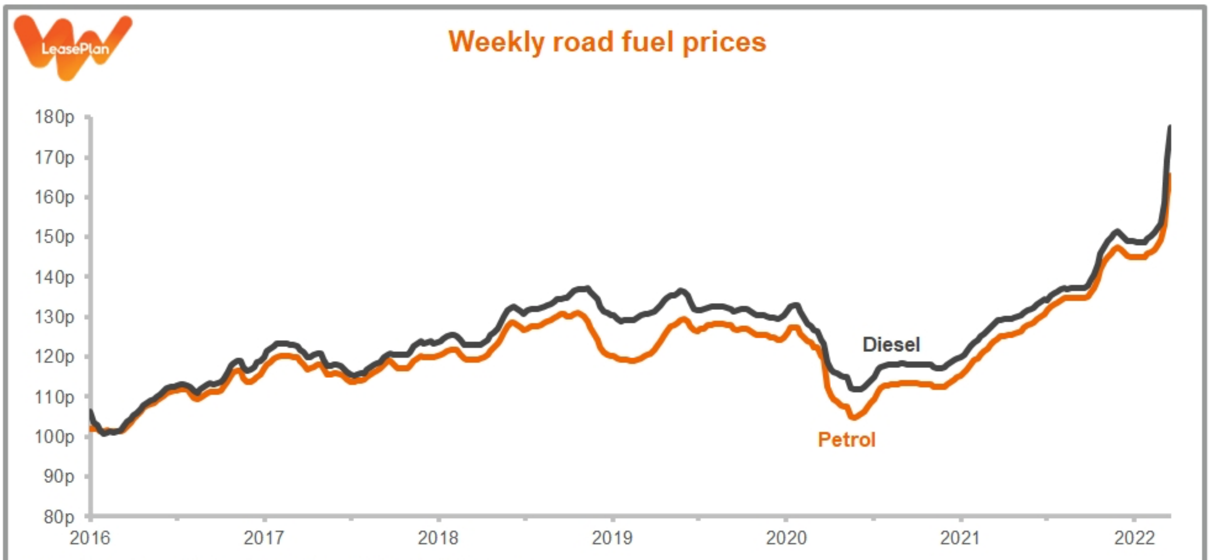
Which is why we have published this report. To give you everything you need to know about the Spring Statement, warts and all. It contains more detail about that Fuel Duty cut, as well information about some of the important legislative areas that Sunak didn't touch upon. It also summarises the key economic and fiscal data, so that you have it readily available.

We hope that you find it useful. As Rishi Sunak has discovered, these are eventful times – and we are eager to help guide our customers through them.

Matthew Walters, Head of Consultancy and Data Services, LeasePlan UK

Policies for motorists

The Fuel Duty cut



Source: Department for Business, Energy & Industrial Strategy

How times change. Ahead of last year's Spring Budget, there was speculation that the Chancellor might increase the main rate of Fuel Duty by 5 pence – in order to help plug the fiscal holes that had been opened up by the pandemic. This increase never materialised.

Instead, in this year's Spring Statement, he has chosen to cut the main rate of Fuel Duty by 5 pence – in order to help motorists who face record petrol and diesel prices at the pump. For the next year, until March 2023, the rate will be 52.95p a litre, instead of the 57.95p it had been frozen at for over a decade. This cut will take effect immediately.

This is undoubtedly good news for motorists and businesses. Since the beginning of this year, and hastened by the situation in Ukraine, the cost of a litre of petrol has risen by 14%, while a litre of diesel has risen by 19%. Anything that stalls these increases and relieves some of the strain on budgets must be welcomed.

However, the benefits of this cut should not be overstated. According to the Department for Business, Energy & Industrial Strategy's latest figures, shown in the graphic above, both petrol and diesel rose by more than 5p a litre in the week preceding the Spring Statement. If that trend continues, then costs could be back to where they were before Sunak's announcement just a few days afterwards.

What happens next with Fuel Duty?

There is now the question of what Sunak will choose to do next March, when this temporary cut comes to an end. The answer will, of course, depend largely on fuel prices. If they remain high, then the cut might continue. But even if they have returned to more normal levels, the

Chancellor may find it hard to revert back to the old level of Fuel Duty. The past decade of freezes shows just how reluctant governments are to increase this particular tax.

But there is also a bigger question ahead about Fuel Duty – and its very purpose. As more and more people climb into electric vehicles (EVs), then the revenues from taxes on petrol and diesel are going to fall dramatically. Indeed, according to a report published by the Tony Blair Institute last year, the Exchequer stands to lose £30 billion by 2040.

A spokesman for Boris Johnson responded to that report at the time, saying: "We need to ensure that the tax system encourages the uptake of electric vehicles and that revenue from motoring taxes keeps pace with that change. We will set out our further plans in due course."

And it was speculated that these "further plans" would feature in last year's Autumn Budget, perhaps in the form of a review into alternative forms of taxation that can be applied to both fossil-fuelled and electric vehicles – such as Road Pricing, i.e. charging motorists for using particular stretches of road. Yet that announcement wasn't made.

So what about the Spring Statement? It didn't contain anything about the future of Fuel Duty either. This huge, historic question about motoring taxation remains unresolved.

While we wait for the Government's announcement, it is perhaps worth restating how important it is to keep incentivising EVs. LeasePlan knows from its customers that the government's favourable tax rates for electric motoring are one of the main reasons why people and businesses are currently making the transition away from fossil fuels. Rushing to impose new taxes on EVs may decelerate a very positive trend.

However, fleets and motorists do need to be able to plan for the future. If the Government truly does have "further plans" for motoring taxation, then we have to hear about them at some point. And when we do hear about them, there has to be a full and thorough process of consultation and review to ensure that the correct decisions are made in the end.

Other motoring taxes

Alongside the Spring Statement, the Chancellor took the unusual step of publishing a separate "Tax Plan". This is his vision for a "lower tax economy," to be achieved within the current Parliament (i.e. by 2024) and it contains some significant tax cuts. These include: the changes to the National Insurance threshold coming in July; the one-percentage-point reduction to the main rate of Income Tax in 2024; and savings for small businesses through the Employment Allowance.

However, the irony of this Tax Plan is that it doesn't do much planning for the years ahead. It's only six pages long, if you don't count the covers, and it lacks detail not only on the measures it contains but also on numerous other areas of tax policy.

Motoring taxes are one of these areas. We have already mentioned how the Spring Statement didn't raise the question of the future of Fuel Duty, but it also failed to provide the rates of Company Car Tax (CCT) for 2025-26 and beyond, meaning that fleets currently entering into three- or four-year contracts are unable to fully plan their finances. This is especially disappointing because Sunak previously had a good record on warning businesses and motorists of upcoming CCT rates.

Then there are all the other tax reviews that were announced in previous Budgets but that have since gone quiet. In 2018, a consultation was set up to look into how road taxes could better incentivise the uptake of cleaner vans. And, in Spring Budget 2020, Sunak did likewise for cars, publishing a call for evidence on how the Government "can use VED to further encourage the uptake of zero and ultra-low emission cars". Neither of these has resulted in actual policy changes – yet.

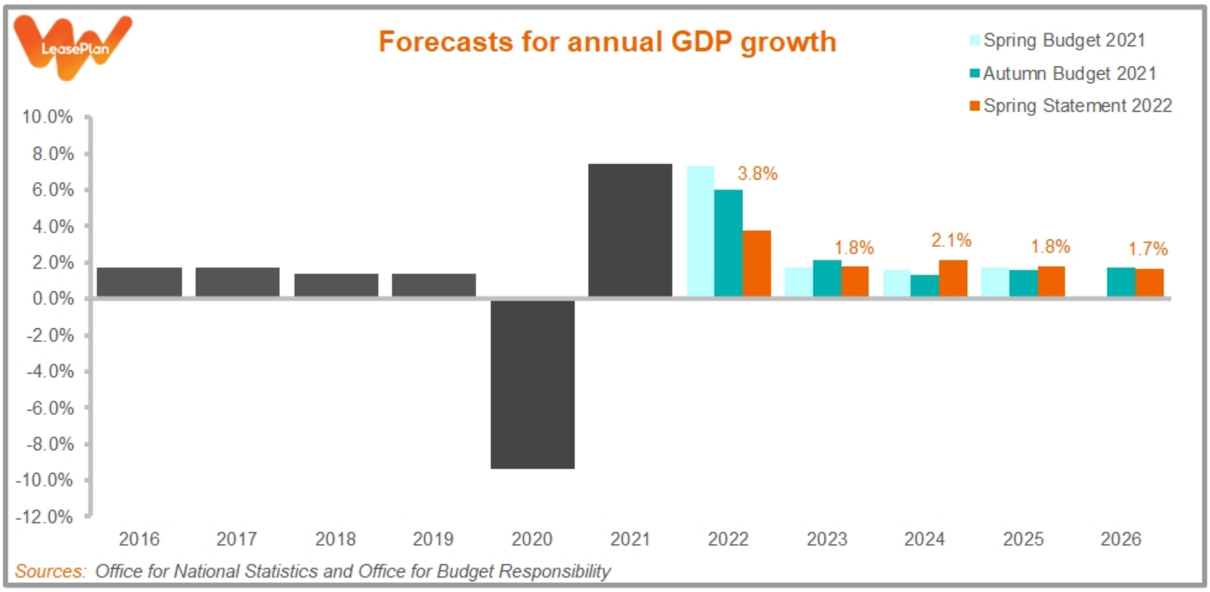
We can add to the list. There was a review announced last summer into which new hybrid vehicles should be permitted to remain on sale after the 2030 ban comes into force, and another on whether vehicle manufacturers should be mandated to sell a certain proportion of zero-emission vehicles. The Spring Statement brought no news about either.

Of course, these processes should be given time to reach proper conclusions. But the point remains: there is a lot of potential legislation hiding in the background at the moment. Perhaps the next proper Budget, this autumn, will bring some of it to light.

Economic forecasts

Alongside every fiscal statement, the independent Office for Budget Responsibility (OBR) publishes its latest set of forecasts for Britain's economy and public finances. Here is a summary of its expectations for the economy.

Growth

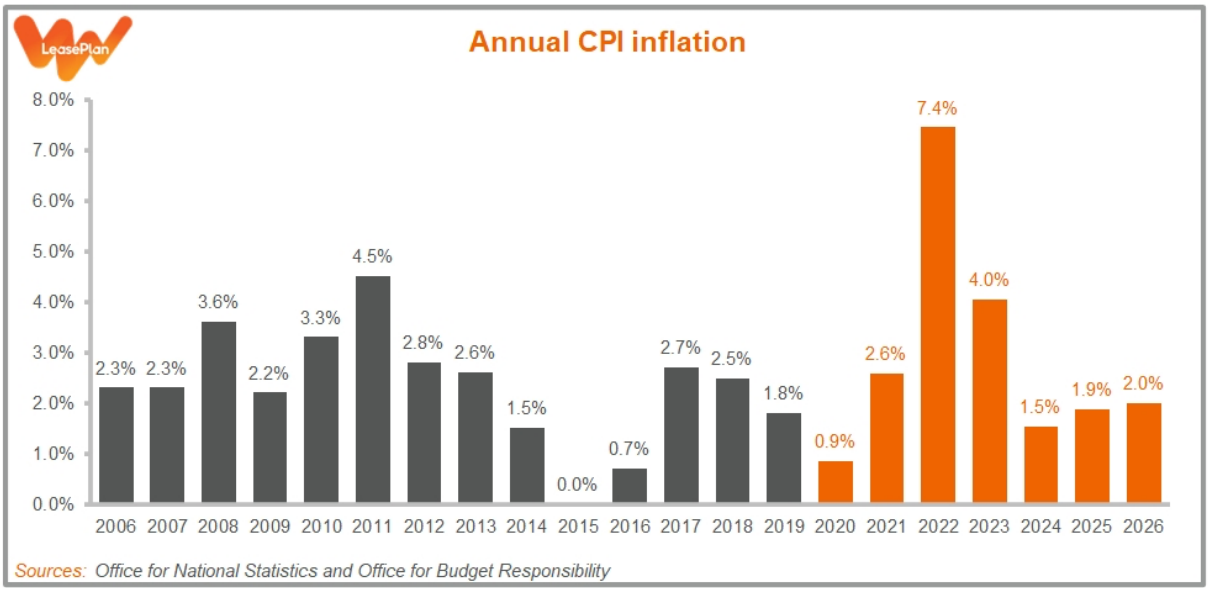


Given the geopolitical situation as well as the persistence of the Omicron variant of Covid-19, the OBR has mostly downgraded the growth forecasts that it made at the time of the Autumn Budget. This year, for example, it now anticipates that the economy will grow by 3.8%, compared to the 6.0% forecast made in October. Next year, it's 1.8%, down from 2.1%.

There are some upwards revisions in subsequent years, but only small ones – and they do not alter the OBR's expectation that the UK economy will grow by around 1.5% to 2% a year in the medium-term.

Besides, both the OBR and the Chancellor himself were eager to emphasise that these forecasts may be substantially downgraded again by the time of the next Budget, due to the current uncertainty around the situation in Ukraine. Indeed, Sunak was unusually blunt in warning that "we should be prepared for the economy and public finances to worsen – perhaps significantly".

Inflation

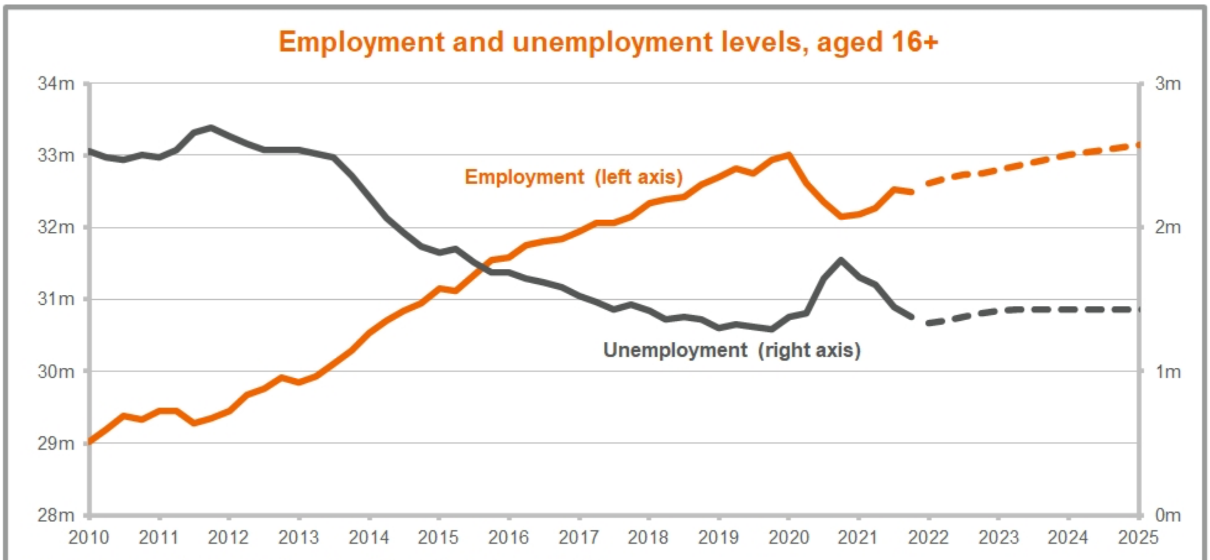


The more immediate economic problem for the Chancellor – and for all businesses and individuals – is the cost of living.

Back in October, the OBR had forecast that the main measure of inflation, the Consumer Price Index (CPI), would increase by 4% this year. Now it forecasts a 7.4% rise, which would be the highest annual level of inflation for about 40 years. It then foresees a significant 4% rise in 2023, before the numbers return to more normal levels in 2024 and beyond.

Potentially compounding the issue, the growth in average earnings is now expected to lag behind inflation in both 2022 (when, according to the OBR, average earnings will rise by 5.3%) and 2022 (2.8%).

Employment



Sources: Office for National Statistics and Office for Budget Responsibility

In the decade up until the pandemic, the strength of the labour market had been one of the great success stories of the British economy. The number of people in work rose by around 4 million in the ten years to the first quarter of 2020, up to a record level of 33 million.

Of course, the pandemic then took its toll: the number of people in employment declined by about half a million between the start of 2020 and the end of last year.

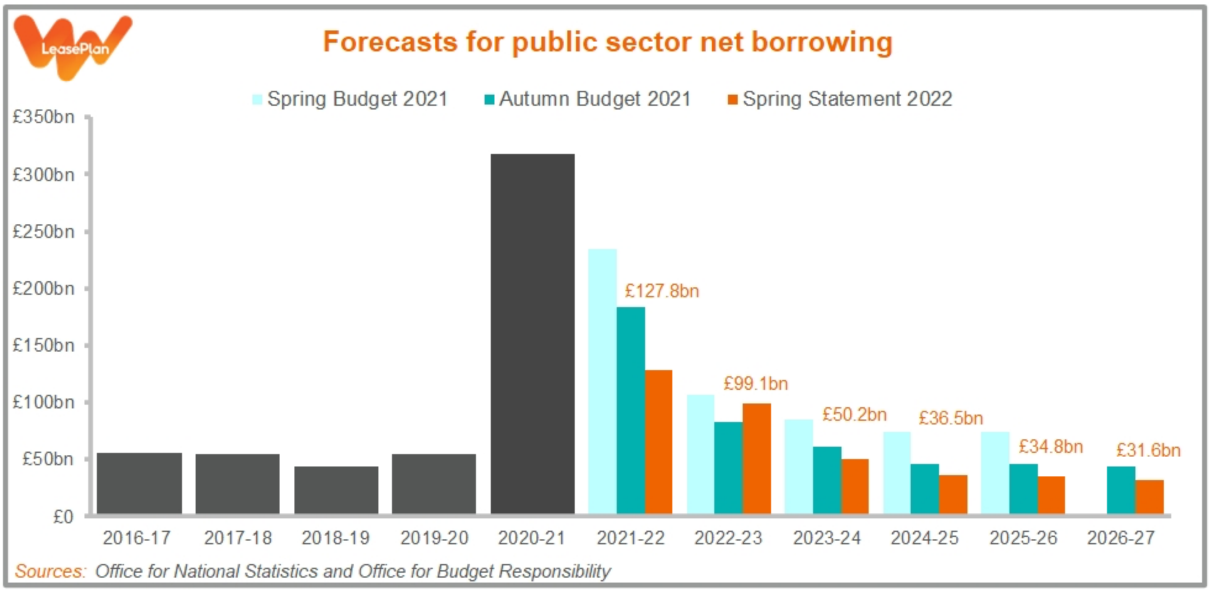
But, even so, the labour market is still showing its strength. The decline in employment (and concurrent rise in unemployment) is much less severe than many feared at the start of the pandemic; an outcome that was secured, in part, by the Chancellor's various job retention schemes.

And, looking ahead, the OBR expects that employment levels will rise consistently from now on – and eventually break the old record around the end of 2023.

Fiscal forecasts

As well as its outlook for the economy, the OBR also produces forecasts for the public finances, which underpin all of the Government's decisions on taxes and spending. Here is a summary of the latest.

The deficit



When Boris Johnson succeeded Theresa May as Prime Minister, he inherited a target to eliminate the deficit – which is effectively the Government's annual borrowing – by 2025. Even before the pandemic struck, that target was disregarded as the Johnson Government decided to invest in big spending programmes.

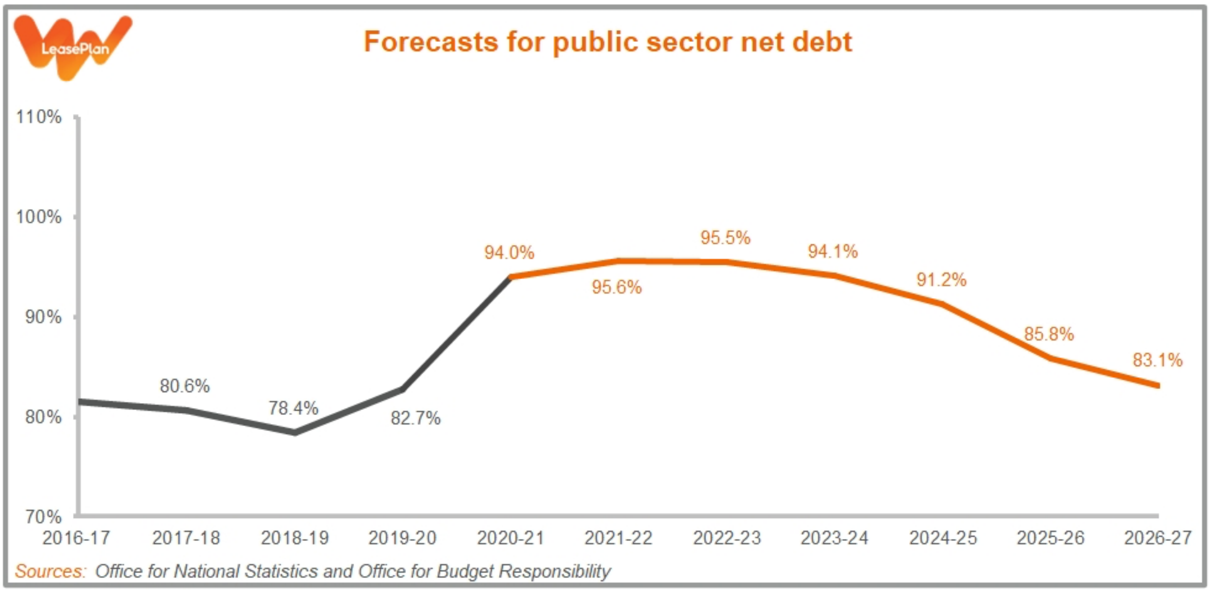
But due to the measures taken to support businesses and individuals through the pandemic, that target was completely blown away. The deficit won't be eradicated in 2025. According to the OBR's latest forecasts, it will stand at almost £35 billion in that year.

However, it should be emphasised that the fiscal position is much improved since the last set of forecasts. The OBR now expects that the Government will borrow about £128 billion in the 2021-22 financial year, which is £55 billion lower than it expected back in October. Indeed, with the exception of 2022-23, borrowing totals have been reduced in every year of the forecast horizon.

As the OBR puts it, "the public finances have continued to recover from the pandemic more quickly than we expected" – mostly due to strong growth in tax receipts. This means that the Chancellor is currently forecast to meet his new fiscal targets with some room to spare.

But the forecasting body does also note that, as with the economic forecasts, these numbers could change rapidly for the worse, depending on the situation in Ukraine. Those borrowing forecasts can go up as well as down.

The debt



All of the Government's borrowing accumulates to make up our national debt. This debt is now almost the size of the UK's entire economy, although the latest forecasts are again lower than those made at the time of the Autumn Budget. Back in October, the OBR expected that the debt would peak at 98.2% of GDP in the current financial year, declining to 88.0% in 2026-27. Now it expects the peak will be 95.6%, declining to 83.1%.

Sources and further reading

- Spring Statement 2022, HM Treasury
- Spring Statement Tax Plan, HM Treasury
- Spring Statement 2022: Rishi Sunak's speech, HM Treasury
- Economic and fiscal outlook: March 2022, Office for Budget Responsibility
- Weekly road fuel prices (22nd March 2022), Department for Business, Energy & Industrial Strategy
- Avoiding Gridlock Britain, Tony Blair Institute for Global Change
- More coverage of Budget 2020 can be found at insights.leaseplan.co.uk/

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