Charity Finance Group: Spring Statement 2019

13 March 2019

This briefing provides a summary of the main announcements of the Spring Statement 2019, including those of particular interest to the charity sector.

Useful links:

- HM Treasury Spring Statement 2019
- Office for Budget Responsibility's Economic and fiscal outlook, March 2019

Overview

At the beginning of his statement, the Chancellor remarked that the Brexit vote "leaves a cloud of uncertainty over the economy". With this continued uncertainty over Brexit, and the potential political ramifications of this dominating the headlines, the Chancellor's Spring Statement has been something of an afterthought for many in the sector. While providing less notable announcements than the budget (the primary fiscal event of the year) there are more than a few important statements that will be of interest to the sector.

The OBR's economic and fiscal projections aren't fundamentally different to those from the 2018 budget, but do offer a mixed judgement on the state of the public finances. On the one hand the short-term growth forecast is down compared to the 2018 Budget, but due to better than expected tax receipts, the borrowing forecast has been revised down to pre-crises levels.

The OBR's assumptions on Brexit presume the UK will undertake a smooth exit on the 29th March with a transition period taking place until 2020. It is now fair to say that recent parliamentary votes make these assumptions look increasingly unlikely, and so these forecasts should be seen as subject to change in the very near future. But nonetheless they do provide a useful guide to the direction of travel for the public finances. CFG has been clear that exiting the EU without a deal would be catastrophic for the sector, and have written to MPs indicating are concerns on this issue and why they should vote against a no-deal Brexit here-
https://www.cfg.org.uk/if_it_comes_down_to_a_vote_on_nodeal_vote_against_it_says_cfg

The Chancellor provided some clarity on the upcoming Spending Review, which is now announced to cover a three year period. With preparations taking place prior to the summer for it to be ready in the Autumn, the Spending Review will give much greater clarity on the direction of government spending. However, the Chancellor stated, "The progress we have made will be at risk if we cannot secure a smooth and orderly exit from the EU." He continued to make the case that there will be opportunities to increase departmental spending, but only if we leave the European Union with a deal in place.

Latest data on the UK economy

The Office for Budget Responsibility (OBR) has published forecasts for the economy and public finances.

- **Growth** – the OBR has downgraded its expectations for growth in 2019 from 1.3% in the autumn budget to 1.2%. The new forecast from the OBR sees growth of 1.6% in 2019/20 and 1.6% in 2020/21. Growth is expected to increase to 1.6% by 2022. With cumulative growth slightly higher than forecast in the 2018 budget.
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- **The deficit (public sector net borrowing (PSNB) as a % of GDP** – PSNB is has fallen even further than announced at the budget, at £22.8bn in 2018/19. It is set to increase slightly to 29.3 in 2019/20 but the OBR has forecast that it will reduce to £13.5bn by 2023/24. This will likely allow the Chancellor more opportunities for the additional spending commitments at the upcoming Spending Review.
- **Unemployment** - is set to remain at 4.1% until 2021 when it is set to decrease slightly to 4.0% until 2023. This is slightly higher than was forecast at the Autumn budget, but the UK labour market remains a major success story of the UK economy, with UK unemployment at its lowest since the mid-1970s.
- **Employment** - is due to increase slightly in 2019 to 32.6m and increase further to 33.0m by 2022. This is a slightly lower than was forecast at the budget.
- **Inflation (CPI)** - is predicted to be 2.1% in 2019, 1.9% in 2020, falling to 2% in 2021 remaining at 2% until 2023. This would keep it in line with the Bank of England's 2% target.
- **Earnings -** average earnings are expected to grow by 3.1% in 2019, 3.0% in 2020 3.1% by 2021 and 2022 and 3.3% by 2023. This is a slight cumulative increase compared to the Autumn budget.
- **Inheritance tax –** The OBR has reported that annual inheritance tax receipts will increase from £5.3bn in 2018/19 to £6.3bn by 2023-24.

The news continues to be positive on unemployment, employment and Labour force participation, but the Growth figures are still best described as anaemic. But with the deficit falling faster than previously forecast, the public finances are in a better place than expected. The chancellor will have more revenue to make additional spending commitments at the upcoming Spending Review.

The chancellor signalled that the Spending Review will occur this Autumn and will occur concurrently with the Budget. It was announced that it will run for three years, and will set out departmental spend limits, there were some indications that there will be increases in departmental spending over and above those previously allocated for the NHS. With this in mind, CFG will continue to make the case for a more generous settlement for local government.

Charity Announcements

There were no specific announcements directly related to charities, but there were a number of more general announcements in the Chancellor's written ministerial statement that accompanied his speech that will be of interest to the sector.

- **£260m extra** was announced for the **Borderlands Growth Deal** which will seek to strengthen the ties between these communities in the United Kingdom. Meaning a total of £362m of investment in the borderlands area.

- Further clarity on the previously announced £60m **Transforming Cities Fund.**

- On the **Apprenticeship Levy**, the 2018 budget announced that the co-investment rate was going to be halved to 5%, it was announced that these changes will now take place from April 2019.

- The Chancellor confirmed the **Low Pay Commissions (LPC) remit for 2019**, and will set a new one for 2020 at the budget. They also published the terms of reference for **a review of the latest international evidence on minimum wages** which will be undertaken by economist Professor Arindrajit Dube, which will report to HMT and BEIS.

- The government will respond to the House of Lords Economic Affairs Committee report on the **Retail Prices Index (RPI) report** by April 2019 which recommendations to both government and UKSA.

- On **Making Tax Digital** the government has reiterated that where organisations are doing their best to comply, no filing or record keeping penalties will be issued. **They have also confirmed that the government will not be mandating MTD for any new taxes or business in 2020.**

- There will be an operational review into **Insurance Premium Tax (IPT)** looking to ensure it operates fairly and efficiently.

- A call for evidence on the use of the **Social Investment Tax Relief** scheme to date, including why it has been used less than anticipated and what impact it has had on access to finance for social enterprises.

- The government has issued a call for evidence on potential simplification and improvement of the **VAT Partial Exemption regime and the Capital Goods Scheme**. This follows on from the recommendations of the Office of Tax Simplification, who have looked in detail at the VAT system.

If you would like to discuss any of the issues arising from the Spring Statement 2019, please contact our the team via the email policy@cfg.org.uk