Spring Budget 2024

Briefing and speculation

CAVENDISH

What is the Spring Budget?

Overview.

The Spring Budget is one of the biggest fixtures in the British political calendar, but what is it?

Taking place next week, the Spring Budget is an address by the Chancellor of the Exchequer, Jeremy Hunt, updating the House of Commons on the state of the economy. This will be followed by the Government's independent fiscal watchdog, the Office for Budget Responsibility (OBR) publishing its audit of the Budget's policies and its forecasts for the economy and public finances.

Following this address, the leader of the opposition, Sir Keir Starmer, will provide a response to the Budget. Parliament will then have an opportunity to debate and question the Chancellor on the Government's economic offerings, providing not only a forum for scrutiny of any announcements, but also their overarching handling of the economy. The Budget is usually followed by four days of debate on the Budget Resolutions, with each day covering a different policy area.

This Spring Budget offers the Government potentially their last opportunity for 'giveaways' to the public before this year's General Election. With the Conservatives currently trailing behind Labour in the polls, the Chancellor is under pressure to deliver tax cuts which revive the Conservatives' electoral prospects. The implications of this year's Budget announcements will not only have an impact the general public but the next Government as Hunt establishes a fiscal terrain that could potentially shape the next few years.

In short, the Spring Budget is the financial update on the economic health of the country, telling us where we've been, and more importantly, where we're going.

The Spring Budget will be delivered directly after Prime Minister's Questions on Wednesday 6th March at 12:30pm. Key documents will be published once the Chancellor has finished his speech. On the day Cavendish will be providing a full briefing on the key announcements.

The current fiscal picture.

The Government set out new fiscal rules in November 2022. The Government is bound by these self-imposed rules, which place limits on debt as a proportion of GDP and borrowing. These are:

1. Debt should be on course to fall as a share of national income in five years' time
2. Public sector borrowing should not exceed 3% of GDP in five years' time
3. Some types of welfare spending must remain below a pre-specified cap (e.g. social security payments for working-age people and children)

Is the Government on course to meet these?

Overview.

How does the current fiscal picture measure up against the Government's fiscal rules and what does this mean for the Spring Budget?

- Measuring against the Government's fiscal rules on debt, the latest forecast by the Office for Budget Responsibility (OBR) needed to show that the debt-to-GDP ratio will be lower at the end of the 2028/29 financial year than at the end of 2027/28. The Government has 0.4% of GDP (£13 billion) of headroom against this target.
- Provided that the total Government revenues need to forecast to be less than 3% of GDP in its fifth year, the OBR's November 2023 forecast showed that the Government had 1.9% of GDP (£61.5bn) of headroom against this target.
- On welfare spending, the OBR forecast showed that the Government will not meet its target, exceeding the cap by £8.6bn.

Does this mean that the Chancellor will employ 'fiscal fine tuning' and use the predicted headroom?

- **Yes and no.** According to the Institute for Fiscal Studies, despite the 'fiscal headroom', public finances remain in a poor position. Even if the outlook for borrowing did improve significantly, net tax cuts should not be implemented before the cuts implied by the current spending totals are allocated to individual departments.
- Markets have expressed that the Bank of England is likely to cut interest rates more slowly than thought at the beginning of 2024, which will keep the cost of Government borrowing high.
- Experts have suggested that the 'fiscal wiggle room' will be between £15bn (estimations by Capital Economics) and £23bn (estimations by the Resolution Foundation), depending on the spending cuts they may also commit to. This is far lower than the £27bn average headroom that Chancellors have enjoyed since 2010. Given the popular rhetoric has been pointing to tax cutting policies and that this may be last fiscal event before an election, restrained tax cuts seem more likely.

Spring Budget speculation.

Housing and Planning.

Energy and Environment.

Transport and Infrastructure.

Health and Welfare.

Workforce and education.

Business.

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Housing and Planning.

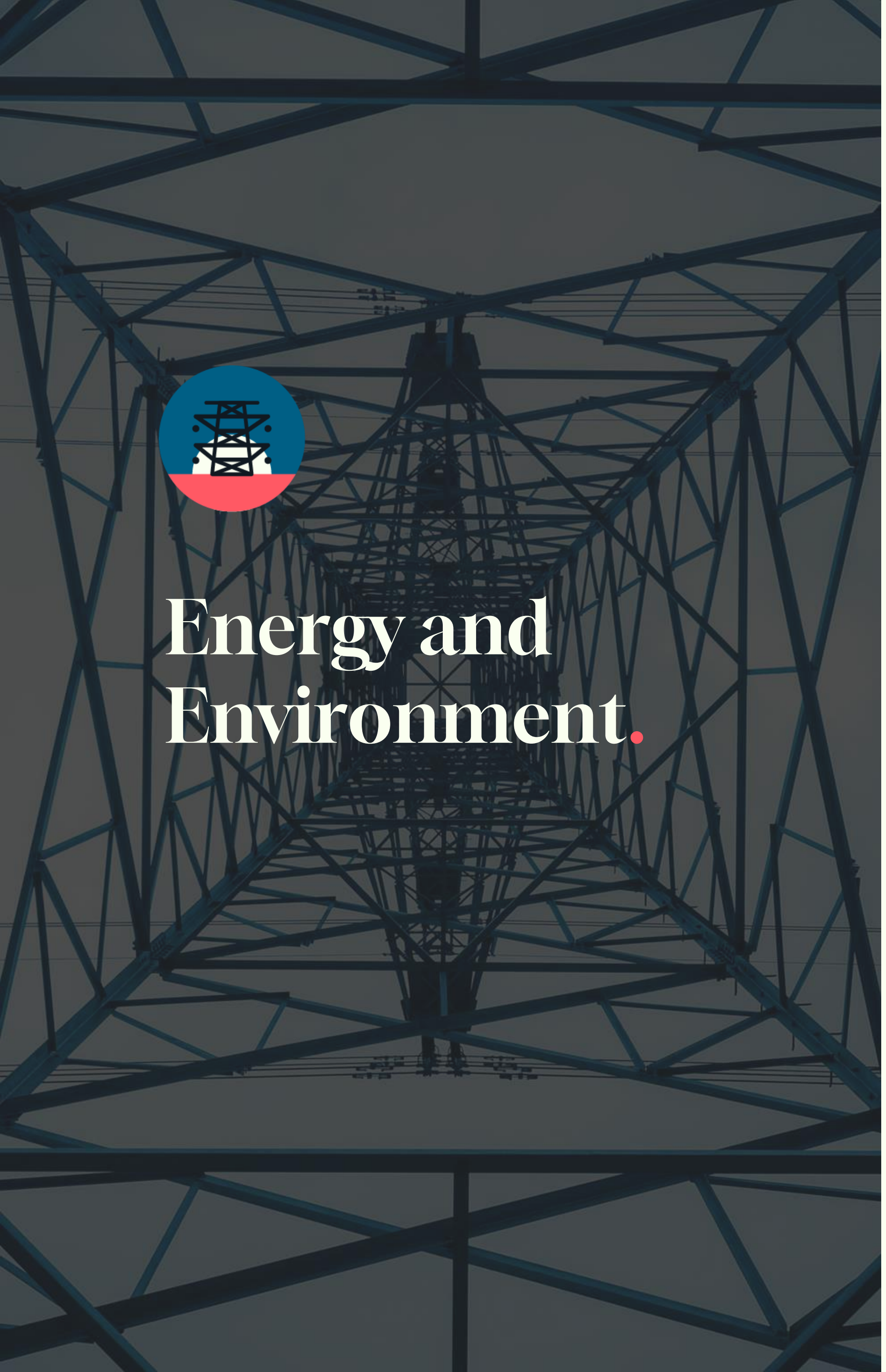
Speculation

- The Conservatives are seeking to prove that they are still on the side of homebuyers, with speculation that the Chancellor could announce a new **99% mortgage scheme**. In the scheme the Government would act as the loan backer if the home buyer only put down a 1% deposit. This comes on the back of the conclusion of the Help-to-Buy loan scheme.
- Other potential announcements to improve the housing market include removing or lowering penalties on **Lifetime ISAs** from 25% to 20% and increasing the maximum value of a house from £450,000 to £500,000.
- Short-term lets are likely to be clamped down on further amid continued house price rises and locals being priced out of their areas.
- **Holiday lets tax perks** for short-term lets rather than long-term rents are likely to be scrapped. This is partly because of the housing crisis that has hit tourist hot spots, such as Cornwall, Devon, and the Lake District where locals say landlords are increasingly moving away from long-term rents due to the tax relief. The current tax break allows 127,000 properties to benefit and pay less income tax.
- **Stamp duty reform** has been widely debated in the lead up to the Budget. Speculation includes removing the tax for downsizers, reducing the tax across the board, and removing the tax in favor of an annual payment. It remains improbable that any of these measures will be introduced due to small head room of spending Budget that is available.
- **Inheritance Tax** has been under an intense amount of scrutiny before every Budget in recent years. There is again speculation that Inheritance Tax will be cut by half from 40% or potentially even scrapped for this Budget.
- The British Property Federation has called for a clear long-term framework, for the UK's building stock and new green energy infrastructure, to be set out in the Budget or they have warned the UK risks not meeting 2050 net-zero targets. Specifically, they called for no VAT on 'residential repairs to support green retrofit projects'. Despite these calls it remains unlikely that these will be answered given the fiscal head room restrictions currently imposed on the Chancellor.

Analysis

Despite calls for changes from One Nation Conservatives and sector bodies it remains unlikely that substantial changes will be made to boost the housing market. As the UK entered a small period of recession in late 2023 the Chancellor is being warned against introducing a 99% mortgage scheme, which some fear could see high levels of negative equity and high value mortgages while not boosting housing supply.

Due to the low level of 'headroom' that the Chancellor has been left with for this Budget it is speculated that any cuts or 'spare money' will go into personal pre-election tax cuts to try and appeal voters with the priority being national insurance or income tax.



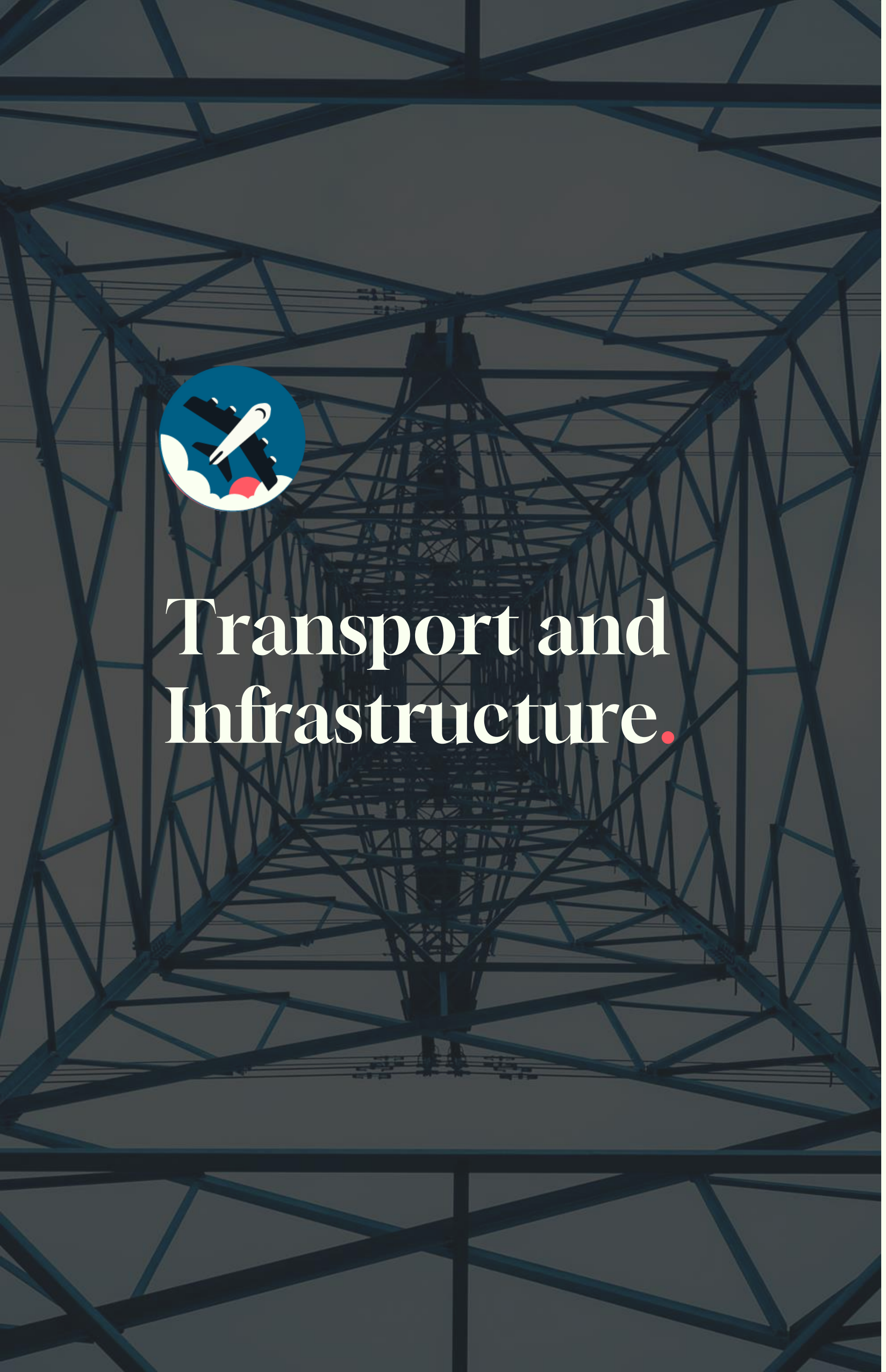
Energy and Environment.

Speculation.

- There is no expectation of energy household support in this Spring Budget. Ofgem has already announced a reduction in the energy price cap of £238 earlier this year in February to come into effect from 1 April 2024.
- Prior to Christmas last year, the Government made the announcement that it was planning on implementing a **UK Carbon Border Adjustment Mechanism (CBAM**). This will not take effect until 2027, but it is likely that the Chancellor will announce a consultation on both the reporting mechanism and a potential charging structure.
- The NFU has written to Chancellor asking him for greater support for farmers including clarity on ELMs (Environment, Land Management schemes) and tax treatment of the sector. This is despite PM Rishi Sunak's recent pledge to spend £220 million on new food productivity schemes at the recent NFU annual conference. No announcements or pledges were made about tax during his speech, and it therefore seems unlikely that further announcements will come in this Budget.
- Briefly reported on has been the potential of extending the **Windfall levy on oil and gas producers**. Currently the levy is a 35% charge on profits and is due to expire in March 2028. This comes after the Labour Party dropped their plans to backdate the tax to 2022 and amidst backlash over their current plans to extend the levy until 2029. Given the backlash to the Labour Party's plans from the industry if this levy extension goes ahead the Chancellor should expect to come under scrutiny.

Analysis

Given the intense focus over the winter months on energy and the cost-of-living it is perhaps surprising that there is little speculation around energy. This reflects the tight Budget this year and the priorities of the Chancellor to cut personal taxation which may now be achieved through an extension of the windfall levy. Although there are some small changes predicted from the Budget, such as the mid-contract broadband price hikes, many of the asks and hopes of the sector may well remain unanswered.



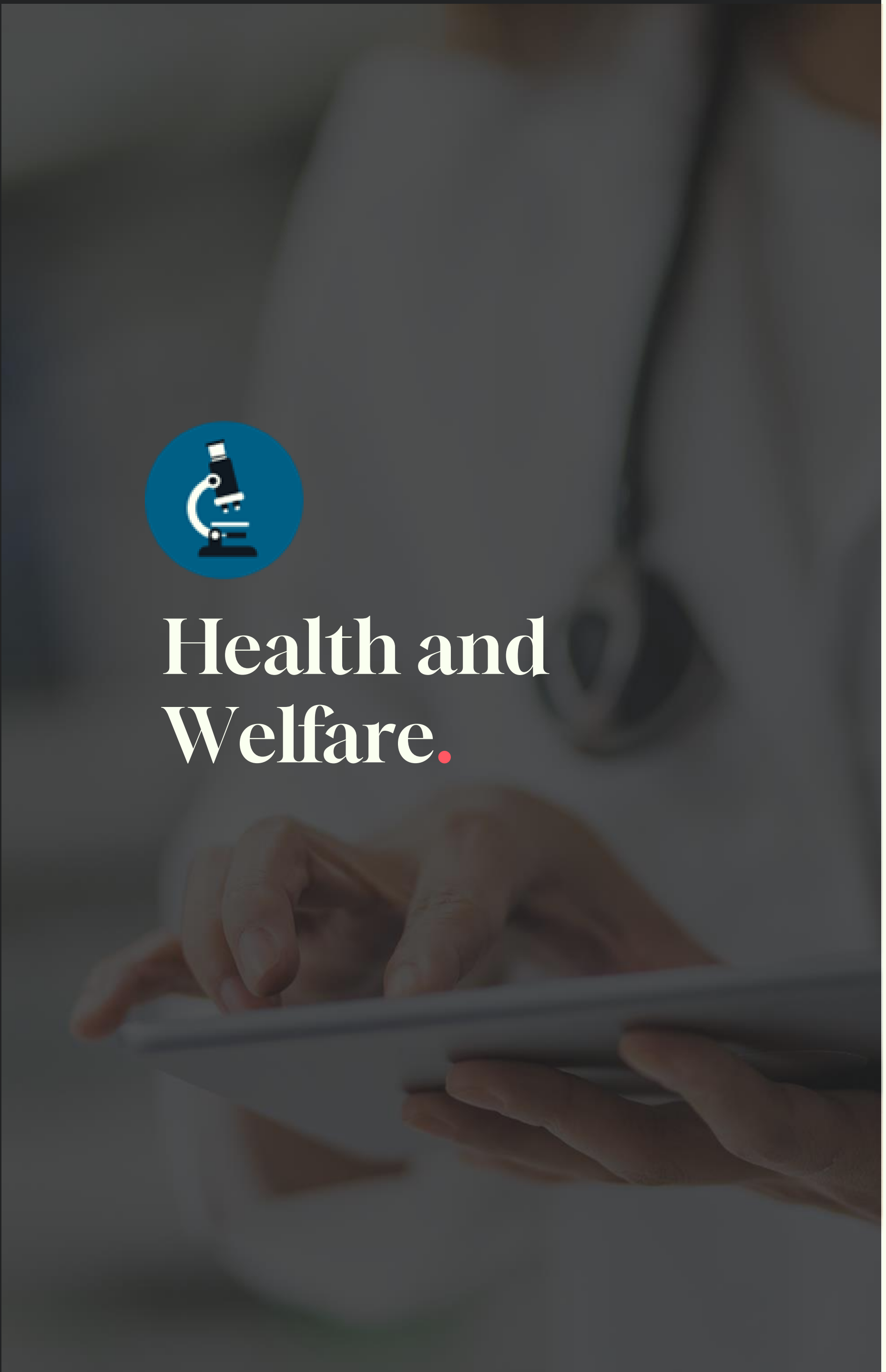
Transport and Infrastructure.

Speculation.

- Following the Chancellor's commitment in the Autumn Statement to reform the UK planning system and cut decision times for major infrastructure projects, those in the sector will hope that the Spring Budget will release further details into how this will be achieved and encouraged.
- Since the weekend reports have speculated that one of the Chancellor's revenue raising taxes may come from an **increase in air passenger duty for business class**. Currently air passenger duty as a whole generates £3.8 billion a year and an increase in the business class standard level could generate hundreds of millions more. The UK is currently the only country to have implemented this tax and in September the Chancellor promised the aviation industry no taxes would be imposed to discourage flying. If this tax rise goes ahead criticism from the industry should be expected.
- Reportedly the Chancellor is considering banning **mid-contract broadband and mobile price hikes**. Contract clauses allow providers to increase their prices by 3%-4% above inflation. This potential policy comes on the back of BT, EE, Three and others already confirming an increase of 8% in April.
- Every Budget sees speculation that the Government will continue its **freeze on fuel** duty, and this is no exception. Scrapping the escalator for another year would cost £1 billion a year and will be welcomed by backbench Conservative MPs and *The Sun* alike.

Analysis

Following the recent revelation that less than 20% of all Levelling-Up projects have been completed it is perhaps surprising that speculation from the budget for infrastructure and transport has focused upon increasing taxes and levies. Over the weekend the Chancellor again focused on the need to be 'responsible' and 'prudent' in this Budget in the wake of the OBR's warnings. The potential increases in taxes and levies will allow the Chancellor to raise the revenue to fund personal tax cuts through appropriate funding.



Health and Welfare.

Speculation

- A **'vaping products levy'** is set to be introduced which will be modelled on similar schemes across Europe. This will see a duty introduced on the liquid in vapes with higher tax levels for products with more nicotine along with a one-off increase on tobacco duty to ensure vaping remains the cheaper option. It is predicted that both these measure will raise £500 million a year by 2028/29.
- Reform to **child benefits** is being urged by the One Nation group of Conservative MPs, who would like to raise the £50,000 threshold. The Chancellor has recently acknowledged that the threshold is "unfair" and if it was affordable, he would change it at this year's Budget.
- Councils are urging the Government to extend the **Household Support Fund** which was first launched in October 2021, extended four times, and is now expected to come to an end on 31st March 2024. The fund was created to support vulnerable households during the cost-of-living crisis.
- Following the recent increase of the **state pension age** from 66 to 67, and then 68, there are some reports that the Chancellor is set to raise it to 70 at the Budget.
- The OBR has estimated that the working-age health challenge is costing £16bn a year in lost tax revenues. The ONS recently estimated that 2.8 million people are out of the labour market due to ill health which is thought to be a similar number to those working with health limiting conditions. These combined factors have compounded with existing funding issues with and are predicted to set working-age health benefits to increase by £17bn a year by 2028/29.

Analysis

Investment and spending on health and welfare always comes under scrutiny at the Budget. Given the ONS estimations about the potential cost of working-age health benefits we can expect greater scrutiny. The mostly likely changes are set to be the introduction of the 'vaping products levy" and tobacco tax and potentially the fifth extension of the Household Support Fund rather than other investment because of the Chancellors focus on personal wealth during this Budget.

Workforce and Education.

Speculation

- Despite the IMF's warnings that the Chancellor should not consider cutting taxes after the UK entered a period of recession in late 2023, it is expected that there will be a 1p or 2p reduction in **employee national insurance**. A 2p cut is expected to cost £10 billion a year given the ONS warnings about Budget cuts it seems more probable that a 1p tax cut will be considered.
- There has been a lot of debate on cutting **income tax**. The Chancellor is coming under increasing pressure from his own party to cut this by 1p or 2p, however many reports are now saying these plans have been shelved due to the projected cost of £13.7 billion.
- Further to cutting income tax, there have been some suggestions that the **personal tax-free allowance freeze** may be removed ahead of its planned removal in 2027/2028. According to the Resolution Foundation cancelling the personal allowance freeze for 2024/2025 is the more likely option as it would result in more people paying less tax.
- Since Covid-19 the Government have issued several back to work initiatives and in 2023 there was a consultation on 'super-deductions' for firms that provide certain types of healthcare. Given the exclusion of this initiative from the Autumn Statement there is some speculation that it may well be progressed in the Spring Budget.
- Ahead of the Spring Budget, experts have been calling on the Chancellor to provide **employee share schemes** in order to generate a £2.4bn boost to the UK economy. As part of an ongoing review, the Government have been consulting on reforms to the Save-As-You-Earn (SAYE) and Share Incentive Plan (SIP) schemes to help boost employee participation, so changes to make them more attractive to employees are likely.
- The Chancellor is expected to announce an increase in **student maintenance loan** which has not risen in line with inflation since 2020-2021.

Analysis

In the run up to the General Election the Chancellor's main focus, and most of the speculation for the entire Budget, is focused on personal tax cuts. According to speculation, the cost of an income tax cut would be too big a move in the current economic climate, forcing the Chancellor to instead consider national insurance cuts. These will cost the Government and may prevent large investment announcements.

Business.

Speculation

- There has been speculation about increasing or scrapping the **'tourist tax'** both ways. It is expected that there will be an announcement on the area, but currently it is unclear the direction this will take. A possible scenario sees the VAT Retail Export Scheme being reinstated.
- Several prominent Conservative backbench MPs, including Simon Jupp, Priti Patel, and Tobias Ellwood, have written to the Chancellor asking him to reform VAT and Business Rates for hospitality businesses, as the sector has been hit badly by Covid-19, the cost-of-living crisis and labour shortages. It is likely that we may see an unfreeze on the **VAT registration threshold** which has been £85,000 since 2017, with more fundamental reform to come down the road in a manifesto.
- In last year's Autumn Statement, the Chancellor made adjustments to **Corporation Tax** by making full expensing permanent. There is speculation that he could build on this and expand measures to cover leased assets, or excluding full expensing from restrictions on how businesses can use tax losses. However, this may prove too expensive of a consideration and is unlikely to appear.
- Recent reports have emerged that despite criticising Labour's plan to scale back **'non dom' tax** rules, the Chancellor is now understood to be considering the same policy. It is unclear if he would scrap, scale back or implement a new tax system, but this move could be seen as a last-ditch attempt to try and fund the personal tax cuts being called for by members of the Government. Scrapping 'non-dom' rules and exemptions entirely could create £3.6bn for the Government.
- The Chancellor is set to make more announcements about the forthcoming **investment zones** to be opened in areas which have so far not been included, with information around precise locations to be shared alongside a progress report.

Analysis

The Government has long professed themselves to be on the side of businesses and entrepreneurs therefore it is likely that an incentive to vote Conservative via a tax break may be introduced in the Budget. The Chancellor's issue is how to fund these incentives. The Chancellor's recent media rounds have focused on managing expectations for the Budget. It is not outside the realms of possibility that he will announce something new on the day and make it look like he has pulled a 'rabbit out of a hat.' Scrapping the 'non-dom' status may well give him the funds he needs to achieve this.

Thank you.

For more insight or to discuss any part of this briefing, get in touch:
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