

# Spring Statement 2022



## Analysis: Sunak digs in

The Spring Statement was delivered against yet another looming crisis, with all attention on whether the Chancellor's plans would adequately respond to the cost-of-living pressures triggered by steep increases in energy prices and rising inflation.

While Rishi Sunak rejected calls to scrap the controversial rise in National Insurance to fund the new Health and Social Care Levy, he increased the threshold it will kick in at to £12,570, bringing it in line with income tax. Fuel duty was also cut by 5p per litre, which Sunak said would save families and businesses £5 billion. And, in the surprise of the day, the Chancellor promised to cut income tax – though not until 2024.

Sunak faces criticism that his response doesn't go far enough, with the Office for Budget Responsibility forecasting inflation will average 7.4% this year and Martin Lewis, the respected founder of MoneySavingExpert.com, warning in the run up to the Statement that the UK is "on the brink of a financial precipice."

While he insisted his changes would make a difference, the Chancellor ultimately stuck to the principles he set out in last autumn's Budget, when he rejected the idea that the answer to every question should be to ask

"what is the government going to do about it?" and instead said that "Government should have limits."

The challenge is that for a Chancellor who made his reputation by going far beyond those limits during the pandemic, reasserting them now – while the economy faces another serious shock – risks public opinion turning against him for not doing enough now.

Indeed it is the experience of the pandemic response that likely explains Sunak's reluctance to go further now, before knowing how much worse things could get. Yet this caution to do more today – when bills are rising – risks jarring with his confidence that he will be able to cut income tax in two years' time, in what is now almost certain to be an election year.

The Chancellor is taking a big bet that sticking to his principles on the limits of government will pay off in time for that election. If things get worse in the meantime, however, he may find himself forced to set those principles aside once again.



**Fraser Raleigh**  
Director, Advocacy

## Key announcements



**NATIONAL INSURANCE**  
National Insurance threshold to rise to £12,570 from July, an increase of £3,000



**ENERGY EFFICIENCY**  
VAT scrapped on energy efficient installations for homeowners



**FUEL DUTY**  
Fuel duty cut immediately by 5p per litre



**EMPLOYMENT ALLOWANCE**  
Employment allowance lifted to £5,000 from April



**INCOME TAX**  
Basic rate of income tax to be cut from 20p to 19p in 2024



**HOUSEHOLD SUPPORT FUND**  
Household Support Fund doubled to £1 billion from April

## Labour response: Reeves hits back on taxes

As anticipated, Shadow Chancellor Rachel Reeves' response to the Chancellor's Spring Statement opened with a robust critique of his decisions not to introduce a windfall tax on oil and gas companies or "properly" reverse his decision to raise National Insurance Tax, which she described as a "tax on jobs".

Labour has taken note of the positive media reception of their proposal for a windfall tax on North Sea oil and gas in response to rising domestic energy bills. Many economic commentators who would normally be highly sceptical of the idea of windfall taxes have come to the conclusion that the energy bills crisis, in combination with Russia's invasion of Ukraine, represents an extreme circumstance where a windfall tax on North Sea oil and gas extraction would be justified and effective.

While unequivocal that the war in Ukraine will hit the UK economically, Reeves stressed that the cost-of-living crisis pre-dates Putin's attack and is the government's responsibility. She also took the opportunity to criticise Sunak for his decision to "sign off" on a reduction in the size of the British army.

Keir Starmer's Labour Party is eager to position itself as the party of family and of business, and in pushing the Chancellor on the NI tax rise and windfall taxes on oil



and gas, Reeves sees an opportunity to try to demonstrate that Labour has a plan for the cost-of-living crisis that will leave British households better off, and – crucially – which mainstream economists and the business community can get behind.

To that end, Reeves also used her response to reiterate that a Labour government would scrap business rates and replace them with "a better system" and argued that the Chancellor failed to demonstrate that he has a long term plan for productivity, skills and growth.

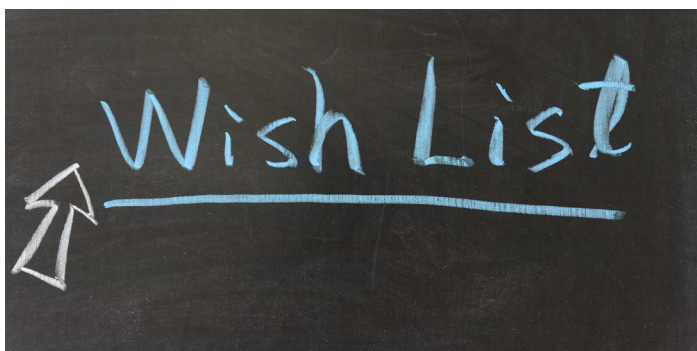


**Imogen Shaw**  
Account Manager, Advocacy

## Devolved: Wish lists left unmet?

The Scottish and Welsh Governments wrote to the Chancellor ahead of the Statement, setting out their respective wish lists, including demands for more help for the lower-paid, a windfall tax on energy companies, and a range of energy policy interventions such as cold weather payments. In many of these asks, they were disappointed.

The Employment Allowance increase, however, is likely to be welcomed by the devolved nations' many small businesses. The fuel duty cut was welcomed by the Welsh Conservatives, keen to contrast the UK Government's support for motorists with the Welsh Government's moratorium on new road building projects. A similar line has been taken by



Conservatives in Scotland, where the Scottish Government, in alliance with the Greens, has pledged to limit new road schemes.

Taking an opportunity to criticise the Northern Ireland Protocol, the Chancellor stressed in his speech that the new zero VAT rate on energy saving measures could not currently be applied in Northern Ireland, which would receive a Barnett share of the value of the relief until the matter was resolved.

Following Sunak's announcement of a reduction in the basic rate of income tax in 2024, the devolved governments, especially in Scotland, face the challenge of whether to follow suit using the levers at their disposal.

The UK Government will be hoping that the Spring Statement reminds voters in the devolved nations of the benefits of remaining in the United Kingdom. From those keen to re-draw the Union settlement, however, we can expect to continue hearing that these measures do not go far enough.



**Siân Jones**  
Associate Director, Advocacy

## OBR:

	2022	2023	2024
Growth	3.8%	1.8%	2.1%
Inflation (CPI)	7.4%	4.0%	1.5%
Unemployment	4%	4.2%	4.1%

## Reaction:



**CBI:** Some encouraging signals from the Chancellor today, however a lot more needs to be done tomorrow, next week and over the coming months if businesses are to battle against and grow under this hugely challenging economic pressure.



**Federation of Small Businesses:** Thrilled to see our top ask for an Employment Allowance increase has been taken forward by @RishiSunak in the #SpringStatement today



**British Chambers of Commerce:** The Spring Statement falls short of the action businesses needed to see today. While there are some positives that firms will welcome, it did not fundamentally address the huge cost pressures they are facing.



**Resolution Foundation:** The Chancellor has prioritised burnishing his tax-cutting credentials over support for the low-to-middle income households hardest hit by this crisis.



**Institute for Fiscal Studies:** If he wants to be remembered as a tax reforming chancellor, so far he is headed in the wrong direction.



## About SEC Newgate

SEC Newgate is an insight-driven global strategic communications and advocacy group. Our advice is delivered by 700 professionals across five continents.

If you have any questions or would like to discuss how the measures announced in the Spring Statement affect your organisation, please contact: [publicaffairs@secnewgate.co.uk](mailto:publicaffairs@secnewgate.co.uk)