

Spring Statement 2018

Key announcements & analysis



“A light at the end of the tunnel”

The Chancellor of the Exchequer Philip Hammond has delivered his first Spring Statement. Unlike the traditional Budget, there was no Red Box and no photo call outside number 11 Downing Street and certainly no rabbits out of a hat. However, the Chancellor carrying a red folder struck an optimistic tone when he said **“there is light at the end of the tunnel”** and that the UK economy is in better shape than expected. He ruled out an immediate end to austerity but hinted at possible spending rises in the future.

In the main, the Spring Statement allowed the Government to make a formal response to the Office for Budget Responsibility (OBR)’s March economic and fiscal forecast. The OBR – the UK’s public finances watchdog, is required to present updated forecasts twice a year.

The purpose of this briefing is to identify key and relevant areas affecting the wider economy and farming. All the relevant documents can be accessed here:

[Philip Hammond's speech](#)

[The OBR’s Economic and fiscal outlook](#)

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The Economy

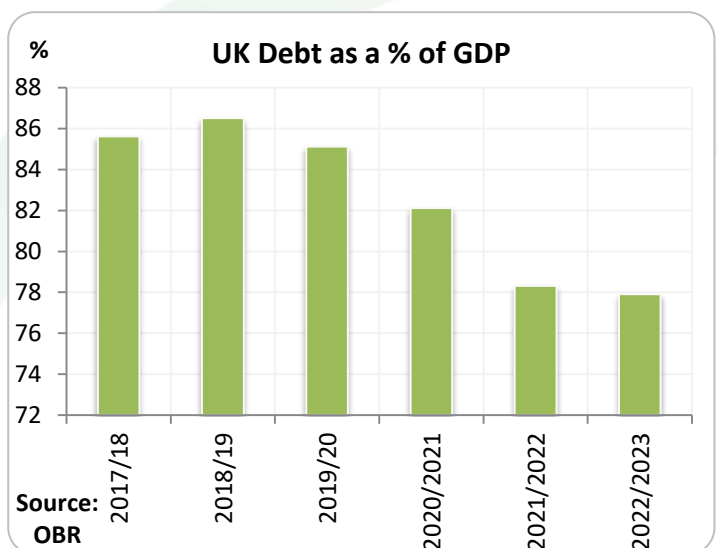
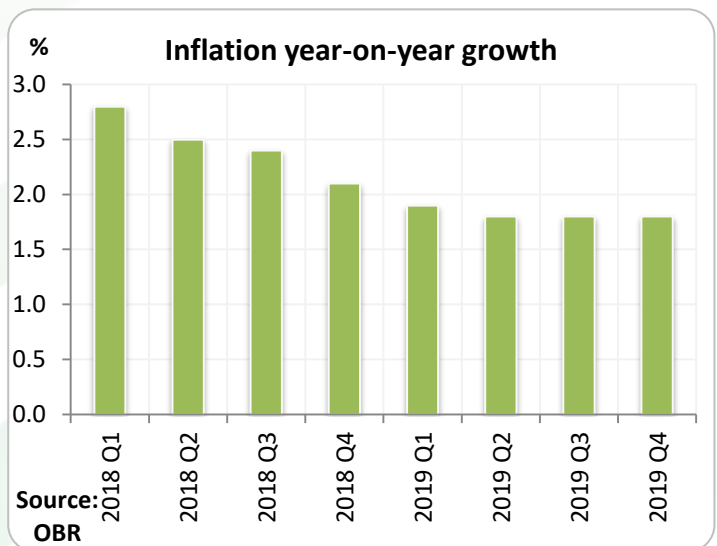
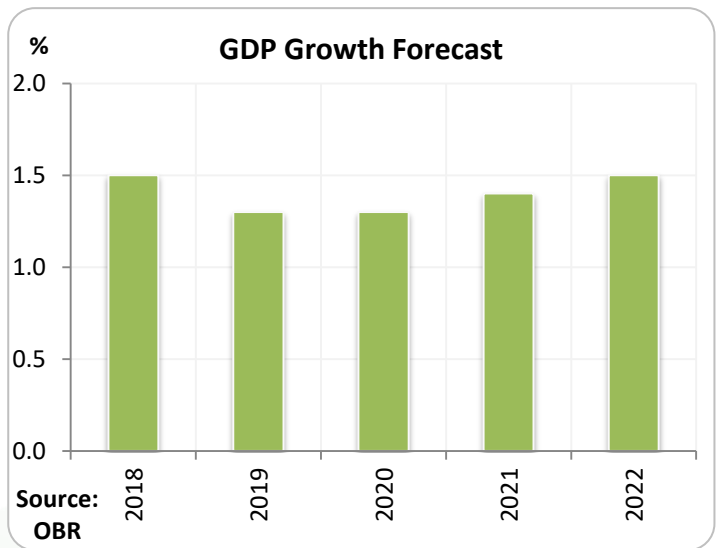
The UK **economy** has grown for five consecutive years and exceeded expectations in 2017, growing by 1.7%. The Chancellor said the economy was expected to grow more strongly than previously predicted in 2018, with public finances also improving. The OBR upgraded its forecast for growth in 2018, from 1.4% to 1.5%. Forecast growth is then unchanged at 1.3% in 2019 and 2020, before picking up to 1.4% in 21 and 1.5% in 2022.

The OBR expect **inflation** to fall over the next 12 months, and wages to rise faster than prices over the next five years. The inflation rate as measured by Consumer Price index, reached 3.1 % in November 2017, which the OBR expect to have been its peak. The OBR assume that the unwinding of last year's sterling-driven rise in import prices will bring inflation down to around 2% relatively quickly and that it will remain close to that level.

Public borrowing is forecast to fall from £45.2bn this year to £28.7bn in 2020-21 and £21.4bn by 2022-23. The Chancellor said he was on track to meet his target for borrowing no more than 2% of national income in 2020-21 with £15.4bn of headroom. This is slightly more than the £14.8bn headroom he had at last November's Budget. Borrowing has fallen by three-quarters since 2010. In 2009-10 the UK borrowed £1 in every £4 that was spent. The OBR expect that we will borrow £1 in every £18 this year.

Employment has increased by three million since 2010 while the unemployment rate is close to a 40-year low. There are also a joint record number of women in work – 15.1 million. The OBR predict there will be over 500,000 more people in work by 2022.

The OBR expect **wage** growth to pick up in the short term, partly on the basis of early indications of stronger growth in pay settlements in 2018. But real earnings growth over the next five years is expected to remain subdued, averaging just 0.7% a year. Growth in real household disposable income per person is expected to average only 0.4 % a year.



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Red Diesel

The Chancellor announced a call for evidence on the [non-agricultural](#) use of red diesel, particularly in the context of the impact on air quality in urban areas. We recognise and appreciate that the Chancellor has excluded agricultural use from this call for evidence. The NFU will however carefully consider where the wider use of red diesel is of importance to the agricultural industry and respond to the call for evidence accordingly.

Business Rates

The Chancellor announced that the next [Business Rates revaluation](#) would be brought forward by one year to 2021, which may be of interest to members with diversified businesses.

Longer-term Tax Consultations

The Chancellor also announced a number of calls for evidence and consultations which the NFU will also be considering and responding to where required. These include:

- [VAT registration threshold](#) and if the current design of the VAT registration threshold may be disincentivising small businesses from growing their business and improving their productivity.
- Reducing [single-use plastic waste](#) through the tax system
- Seeking views on the role of [cash in the new economy](#)
- Supporting people to get the skills they need through [extending the current tax relief](#) to support self-employed people and employees when they fund their own training.

Digital Connectivity

The Chancellor referenced the first wave of funding for extending full-fibre broadband and referenced the 5G test pilots announced on Monday which includes a [farming and ruralfirst project](#)

Brexit Cash Allocation

The Chancellor announced how £1.5bn of cash for Brexit will be spent in 2018/19. Much of it is for preparations for a 'No Deal' - even though the government is desperate to avoid it. It includes the following:

- Home Office: £395m
- Defra: £310m
- HMRC: £260m
- BEIS: £185.1m
- Transport Department: £75.8m
- International Trade Department: £74m
- Cabinet Office: £49.4m
- Foreign Office: £29.6m
- DCMS: £26.2m
- HM Treasury: £24.8m
- Competition and Markets Authority: £23.6m
- Health and Social Care: £21.1m
- Ministry of Justice: £17.3m
- Food Standards Agency: £14m
- Ministry of Defence: £12.7m