

SPRING STATEMENT MARCH 2019 HIGHLIGHTS & ANALYSIS

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Garry has been active in the world of financial services since 1990, originally with one of the UK's largest insurance companies advising clients both in Stirling and Edinburgh.

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GET IN TOUCH

WELCOME TO THIS GUIDE

With an uncertain Brexit outcome still looming large, Chancellor Philip Hammond faced an unenviable task in presenting his Spring Statement today.

Set against the backdrop of last night's government defeat in the House of Commons, Hammond needed to balance relatively positive economic news with dire warnings about the impact of leaving the European Union without a deal.

It was a generally upbeat Spring Statement, helped along with positive figures from independent Office for Budget Responsibility.

Telling MPs that he would keep the statement brief so they could turn their attention to more pressing matters, Hammond shared news of a remarkably robust British economy shrouded in a cloud of uncertainty.

There was little in this Spring Statement to immediately concern savers, investors or retirees. It did, however, offer useful context for long-term financial planning in light of different potential Brexit outcomes.

Keep in mind this was not a 'full fiscal event', but instead a statement designed to support the government in sharing its projections for the economy and the public finances.

Within this guide, we have described the highlights of this Spring Statement along with our immediate analysis.

As with all Spring Statements and Autumn Budgets, more details tend to come to light in time. Do speak to us if you have any questions about the contents of this special report and seek professional independent financial advice before taking action.

If you have any questions about anything in this briefing note, please do get in touch. You can call us on 01786 431760, email getintouch@hkwealth.co.uk or talk to us on Twitter @hkwm.

ECONOMIC ENVIRONMENT

Hammond shared an upbeat assessment of the British economy, reflecting on nine years of growth, with this economic growth forecast to continue for the remainder of the forecast period, at least a further five years.

During this time, the employment rate has risen, and unemployment has reached a record low. Youth unemployment, in particular, has halved.

This is an economy that has defied expectations.

Alongside economic improvement is an improving picture for public finances. Hammond presented the latest OBR report as a further 'step on the road out of austerity'; a claim that will no doubt be challenged by opposition parties and the media.

The OBR is forecasting economic growth of 1.2% this year, 1.4% next year, and then 1.6% in each of 2021, 2022 and 2023. While these projected growth figures might not seem significant, they come towards the end of a long and sustained period of economic growth.

When taken as a cumulative growth figure, this forecast is slightly improved from the OBR projections published alongside the Budget last autumn. In this respect, the economic picture is growing.

Following a period of falling real-term wages, the forecast now is for wages exceeding price inflation. Average salaries are expected to be 3% or higher during the forecast period, with price inflation remaining around the level of the Bank of England target of 2%.

Borrowing is also forecast to fall, with a forecast of 1.1% of Gross Domestic Product (GDP) in 2019, which is lower than the estimate in the Autumn Budget. It means the government is on track to meet its fiscal targets earlier than previously thought.

Hammond espoused the virtues of a 'balanced' approach to the economy, with equal emphasis on reducing public debt and investing in the future.

BREXIT ‘DEAL DIVIDEND’

One of the most controversial claims in this Spring Statement was news of a possible ‘deal dividend’, should the UK’s exit from the EU take place on a smooth and managed basis.

Hammond believes that the fiscal headroom he has held back in case of a no-deal Brexit could be released into the economy should a deal be agreed by parliament. It remains unclear how much of this could be released and when, although the intention is to spread it across the aims of public spending, investment in infrastructure, and to keep taxes low.

The Chancellor reminded the House of Commons that, from the start of the new tax year in April, some 40 million people across Britain will benefit from cuts to income tax, previously confirmed in the Budget.

Despite the earlier report of a positive economic scorecard, Hammond warned that progress was at risk if a smooth Brexit could not be achieved. He said he had hoped this would be confirmed last night but remains confident it will happen over the coming weeks.

In terms of planning for contingencies, the government was encouraged by the Bank of England report saying the UK’s financial system was resilient to a Brexit shock, has put plans in place for border controls, and has published its temporary no-deal schedule of import tariffs.

Hammond did, however, warn that a disorderly Brexit would result in short and medium-term reductions to capacity in the UK economy. Any fiscal response, such as cutting interest rates or increasing quantitative easing, would need to be deployed carefully due to the risk of stoking price inflation. A fiscal answer could also only be a temporary measure.

SPENDING REVIEW

Assuming a Brexit deal is agreed in the coming weeks, Hammond intends on launching a three-year spending review. This would be started ahead of parliament's summer recess and would be concluded in time for the Autumn Budget.

If this spending review goes ahead, it would be the first since 2015. Its focus would be spending money to raise productivity, as well as setting budgets for government departments.

This review would "reflect the public's priorities between areas like social care, local government, schools, police, defence and the environment."

A central plank to this Spring Statement was the importance of boosting economic productivity.

The Chancellor described increasing investment for infrastructure, skills, technology and housing, with the upcoming spending review due to establish a multi-year capital budget in each area, all designed to deliver increased productivity.

One example of investment was the up to £260 million allocated for the Borderlands Inclusive Growth Deal (BIGD). Part of this investment will see improvements to fibre optic broadband and 4G mobile coverage in poorly served areas.

TECHNOLOGY AND THE NEW DIGITAL ECONOMY

The Chancellor welcomed to the newly published Furman review. This independent review of the digital economy has found a growing dominance of tech giants.

The government will be responding to the Furman review later this year. In the meantime, Hammond announced he is asking the Competition and Markets Authority (CMA) to start a market study, one of the key recommendations within the Furman review.

Hammond also said in the Spring Statement, the government remains committed to funding the Joint European Torus programme which is based in Oxfordshire. This will become a wholly UK asset should the European Commission decide not to renew the contract. It's involved in ground-breaking fusion energy research.

Another investment announced in the Spring Statement was £81 million for Extreme Photonics. This is state-of-the-art laser technology, with research also based in Oxfordshire.

There was a boost for the UK's genomics sector, with £45 million allocated for Bioinformatics research in Cambridge.

And in Scotland, the Chancellor announced £79 million of funding for a new supercomputer at Edinburgh University. Earning a mild chuckle in the House of Commons, Hammond joked that at 10,000 trillion calculations per second, this new piece of kit might even be able to resolve the Irish backstop conundrum!

ACCA's head of taxation, Chas Roy-Chowdhury said: "We welcome the document that has been published today on the digital economy; however, we have said all along that the UK must not jump the gun. We must wait for the OECD to agree a global solution. If there are to be changes to the digital tax rules then we need to ensure there is no double taxation as well as nil taxation. The EU has agreed the OECD global route to a solution is the best approach and we entirely agree with this."

AN OPEN UK

Ahead of the UK's departure from the EU, Hammond made it clear the Spring Statement that the country remains competitive and open for business.

He announced that visitors from the US, Canada, New Zealand, Australia, Japan, Singapore and South Korea will be able to use e-gates at UK airport and Eurostar terminals from June onwards. Citizens from other countries will be added to this list in due course.

Britain will be abolishing paper landing cards from June 2019 onwards, also with the goal of speeding up entry to the UK.

It was announced that research institutes and innovating businesses will gain an exemption from the cap on the high-skilled visa in respect of PhD-level occupations. This exemption comes into force in the autumn.

ECOLOGY AND THE ECONOMY

The Chancellor extended previous measures from the Budget to move towards a clean economy.

Part of these measures is to help small businesses reduce their energy bills and carbon emissions. The government is calling for evidence on a business energy efficiency scheme, exploring how it might support investment in energy efficiency measures.

The government is also planning to require housebuilders to deliver net gains for biodiversity for new developments in England.

There will be an acceleration of the decarbonisation of gas supplies, so more green gas is supplied through the national grid. This is a move towards homes and businesses becoming less dependent on natural gas.

This Spring Statement introduced a new Future Homes Standard. Coming into force by 2025, the Future Homes Standard will require new build homes no longer use fossil fuel heating systems.

EDUCATION

To create the workforce of the future, with the skills needed by employers, this Spring Statement reminded us of updates to apprenticeship reforms, previously announced in the Budget.

This means that, from 1st April 2019, employers will have their co-investment rate cut from 10% to 5%. Levy-paying employers will be able to share more levy funds across their supply chains, with the maximum rising from 10% to 25%.

Tackling period poverty in schools, the Chancellor announced a new national scheme in England to provide free sanitary products to girls in secondary schools and colleges.

There was also news of a new review of minimum wages, designed to inform future National Living Wage policy after 2020. This review will be carried out by Professor Arindajit Dube.

HOUSING

The Chancellor confirmed that 220,000 new homes were built in the UK last year.

The government has a goal to restore the dream of home ownership for younger people and wants to see at least 300,000 new homes built each year by the mid-2020s.

Announced in today's Spring Statement was a new £3 billion affordable homes guarantee, designed to deliver 30,000 new affordable homes.

There was £717 million promised, out of the £5.5 billion Housing Infrastructure Fund, to unlock up to 37,000 homes at sites including Old Oak Common in London, the Oxford-Cambridge Arc, and Cheshire.

OTHER ANNOUNCEMENTS

Included within the Spring Statement was good news for small businesses who suffer from late payments. Larger enterprises and their audit committees will now have to review their payment practices, with these reported in their annual accounts.

Addressing the recent surge in knife crime across the country, the Chancellor announced an extra £100m of police funding. This will be ringfenced and used to pay for overtime specifically focused on tackling knife crime.

A more lasting funding solution to funding to tackle knife crime will then be addressed in the spending review.

TAX AVOIDANCE AND EVASION

Published by HM Treasury to coincide with the Spring Statement was a policy paper setting out the government's approach and achievements in tackling tax avoidance, evasion and other forms of non-compliance.

This policy paper is split into three chapters. It outlines HMRC's strategy and approach to compliance for different taxpayers, details the government's record in addressing areas where risks of non-compliance have been identified and provide a summary of the government's history of investment in HMRC and its commitment to further action.

Within an Annex of this policy statement is a list of more than 100 measures introduced by the government since 2010, designed to crack down on tax avoidance, evasion and non-compliance.

LOOKING AHEAD TO THE BUDGET

They say that a week is a long time in politics. With so much Brexit uncertainty, the gap between this Spring Statement and the Budget later this year seems gigantic.

However, the improved state of public finances announced in this Spring Statement could represent good news for pension savers. Royal London policy director Steve Webb, a former pension minister, has said that the Spring Statement today removes the pressure on the Chancellor to raid pension tax relief when the Budget comes around.

An attack on pension tax relief has been on the cards for a while, with Hammond saying in last year's Budget that its cost is "eye-wateringly expensive", hinting at the time that more cuts were likely. But improved public finances could reduce that pressure on Hammond to cut pension tax relief later in the year.

Steve Webb, Director of Policy at Royal London said:

"Too often, governments have raided pension tax relief for extra revenue to meet a short term spending crisis. Now that the public finances are improving faster than expected, there is no justification for further 'salami slicing' of limits on tax relief.

"Pensions should be a long-term business, not subject to annual tweaking by cash-strapped Chancellors. An improving fiscal picture means the Chancellor should refrain from any further short-term cuts."



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