Supporting Scotland's
Vibrant voluntary sector

SCVO UK Spring Statement Summary 2022

March 2022

Following the UK Government Spring Statement 2022, SCVO produced this summary of commitments impacting the voluntary sector operating environment. This paper also includes analysis from key commentators on the impacts of these commitments.

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Background

On 22nd of March 2022, the Chancellor, Rishi Sunak published the [Spring Statement](#).

On the same day, inflation was announced at 6.2%. The Office for Budget Responsibility (OBR) predicts inflation to average 7.4% this year. The OBR now expects CPI to rise to 8.7% by the end of the year, a 40 year high. The OBR says this is the biggest fall in living standards since 1956 and that there is unusually high uncertainty.

Inflation has impacts across society, including government. Inflationary pressures will result in higher debt payments, forecast to reach £83 billion this year, four times the debt interest payments made last year. Entitlements tied to inflation will also impact public spending costs and the cost of providing public services will increases.

Lower growth output is also forecast. Unemployment, however, is forecast to be low and as employees move into the higher income tax rate brackets – from the freezing of thresholds introduced for 2021-22 - the OBR highlight that tax receipts will perform more strongly than previously predicted. The Chancellor therefore had more resources available to allocate than had been anticipated.

By April, gas and electricity tariffs will rise by around 50%. A further increase is expected in October, with estimates of 40%.

Opening remarks and key themes

The Chancellor opened by saying he aims to achieve a stronger and more secure economy for the UK. He said UK Debt will fall over next few years and that there was a need to prioritise this as the cost of borrowing rises. More borrowing, he said, is not cost or risk free. "Borrowing down, debt down", is a priority, he said, due to expected higher interest rates. He also stressed that actions to sanction Russia are not cost free.

- Focus on 'working people'
- Focus on productivity, business, and innovation.
- Focus on getting debt and taxes down.

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Next steps

- Several actions from the Spring Statement and the autumn Budget will come into effect in April.
- A Tax Plan has been published. Engagement will take place over the summer months with ‘businesses’.

Key points impacting the voluntary sector operating environment

The early reaction is that the statement will not help the people and communities that many organisations in the voluntary sector support and work with through the cost-of-living crisis. As we all know, this puts strain on voluntary organisations and the sector as a whole.

Big picture analysis

- The government has announced a three-year transition period for Gift Aid when income tax reduces from 20% to 19% in April 2024. This highlights the welcome consideration that has been given to charities as part of a broader policy decision on income tax. The proposed transitional relief will safeguard over £250m of charity income. (Charity Tax Group).
- Charities will benefit from the increase in the Employment Allowance (Charity Tax Group).
- Within the statement the Chancellor talked about developing plans with business on skills, innovation, and productivity. Support for charities in these areas was not discussed.
- Household disposable incomes are projected to fall by 2.2% in 2022-23 relative to 2021-22 after adjusting for inflation. That’s the equivalent of an average drop of £488 per person, or nearly £2,000 for a family of four (Pro Bono Economics) with implications for the voluntary sector.
- Many political commentators argued that raising National Insurance while cutting Income Tax makes little sense.

Broader points of interest

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Mentions of the voluntary sector

- None, although the measures on Gift Aid do recognise the sector.

Levelling-up

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- The government is launching the second round of the Levelling Up Fund. A refreshed Prospectus will be published and bids invited from eligible organisations across the UK. This Fund provides £4.8 billion for local infrastructure projects, with £1.7 billion already allocated to 105 successful projects from the first round.

Research and Development

Content

- The government set out in the Tax Administration and Maintenance Command Paper that R&D tax reliefs would be reformed to include some cloud and data costs and refocus support on R&D carried out in the UK. From April 2023, all cloud computing costs associated with R&D, including storage, will qualify for relief.

Local Government

Content

- Double the household support fund to £1 billion pounds with £500 million in new funding. Managed by local Authorities (note this will have Barnett consequentials and will not apply in Scotland).

Analysis

- Local council welfare support grants are for one of unexpected payments. They are not for the millions who can't afford food and bills every month. Too little and the wrong tool for this crisis (JRF).
- The token £500m for local crisis funds misdiagnoses the problem. Are people expected to apply for emergency support month after month when their bills continue to rise, and their benefits and wages don't keep up (IPPR).

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Barnett consequentials

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- Consequential from the Household Support Fund doubling to £1bn, which will be administered through English local authorities from April.
- The reduction in the basic rate of income tax, for non-savings-non-dividend income, will **not apply for Scottish taxpayers** because the power to set these rates is devolved to the Scottish Government. Under the agreed Fiscal Framework the Scottish Government will receive additional funding, worth around £350 million in 2024-25.

Analysis

- In the immediate term, the Scottish government received £45 million in additional Barnett consequentials, which will be added to the spending envelope for next year (2022-23). The vast majority of this flowed from the UK Government "Extending the household support fund" (SPICE).

Gift Aid

Content

- A future Finance Act will bring forward transitional relief provisions for charities which will maintain the basic rate of income tax relief at 20% until at least 2027.

Analysis

- The government has announced a three-year transition period for Gift Aid when income tax reduces from 20% to 19% in April 2024. This highlights the welcome consideration that has been given to charities as part of a broader policy decision on income tax. The proposed transitional relief will safeguard over £250m of charity income (Charity Tax Group).
- Charities can currently promote the use of the Gift Aid scheme by telling donors that for every £1 donated they can claim an extra 25 pence in gift aid (subject to certain rules), after April 2027 the message will be that for every £1 donated an extra 23.5 pence can be claimed (Wylie Bissett).

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Employment

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- National insurance change (threshold will be increased by £3000 to £12,570) this only effects employees- not employers.
- Employment Allowance will increase to £5000. The Employment Allowance cuts the tax bills of small businesses making it cheaper to employ workers. (available to small business – registered charities can claim the Employment Allowance).
- The government recognises that employers have frustrations with the way that the Apprenticeship Levy funds can be spent within the apprenticeships system and is delivering a suite of improvements to address these. As part of this, the government is looking at how more flexible apprenticeship training models can be supported, while ensuring apprenticeships remain a high-quality training route for employees of all ages and stages of their career.

Rates /Vat

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- For the second time in 20 years, fuel duty cut by 5p per litre (biggest cut ever until March 2023).
- Installing solar panels and heat pumps etc, no VAT (As no longer constrained to EU law), Wind and water turbines also zero rated and red tape abolished (£1000 tax break for a family installing solar who would then save £1000). Can't be introduced in Northern Ireland at present (due to Brexit) who will get Barnett consequentials.
- Need the private sector to train more, invest more, more and innovate more. People, capital, and ideas to create new culture of enterprise. Will work with businesses over the summer on tax plans around this. Says lower rate of innovation key to productivity gap.
- Will reform R&D tax credits. R&D expenditure credit may be made more generous.
- In the Autumn Budget will cut the tax rate on Business investment.

Analysis

- Measures that target motorists and homeowners will fail to reach those on the lowest incomes.

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- Fuel duty cut of 5p will be worth £1.80/month to the poorest households. Only 7% of benefit will go to poorest 20%, but 30% of benefit will go to the richest 20% (New Economics Foundation).
- Fuel duty cut by 5p – small impact on overall cost of living, most money going to higher income people. People in the poorest 10th spend £6.20 a week on petrol/diesel. Richest 10th spend £37 a week on it (JRF).
- The OBR believes that household incomes would have fallen by a further 1% in 2022-23 in the absence of his near-£18bn of support – constituting the energy support package (£8.9bn), the 5p fuel duty cut (£2.4bn) and the raising of the National Insurance primary threshold (£6.3bn).
- A cut to fuel duty will mostly benefit men who are more likely to take long car journeys, and richer people who own large cars. Women are more likely to take shorter, local journeys, and rely on public transport (Women's Budget Group).
- Save £3.30 when filling up average family car (RAC).
- Government will still make a lot of money from fuel which has went up more than 40p a litre since last year's Spring statement, which is an extra 7p per litre for the Government.

Tax

Content

- Tax plan published. Likely to be discussed by Charity Tax group.
- Health and care levy will stay but seem to recognise its not sustainable when they plan to lower taxes.
- National Insurance threshold will be increased by £3000 (£12,570). This will impact employees and the self-employed. The Institute for Fiscal Studies have said it's the best way to help low and middle earners through the tax system. Around 70% of all workers will have their taxes cut by more than the amount they will pay through the new levy. (This equalises personal tax thresholds).
- UK Government will reduce taxes by the end of parliament in a way that is 'responsible and sustainable'.

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- Income tax by 2024. Fiscal rules will be met by 2024. The basic rate of income tax will be cut from 20p to 19p in the pound. This will affect 30 million people. (**Note this will not apply to Scottish tax payers**).
- When Income tax is cut in 2024 a three-year transition period for Gift Aid relief will apply, to maintain the income tax basic rate relief at 20% until April 2027.

Analysis

- Raising National Insurance Threshold to £12, 500, equal with tax threshold is a good policy on own terms, 2.4 million workers taken out of it. But more than 1/2 benefit goes to richest 1/2. Only £1 in £3 goes to bottom half, £250 gain. Those on benefits lose £500 (JRF)
- Chancellor quotes IFS saying National Insurance rise is best way of helping low earners through the tax system. The last 4 words are the important bit - it's NOT the best way to help them, that would be to use Universal Credit, which was designed for the job (JRF)
- If the NI threshold will also be frozen in cash terms for the next couple of years, like the income tax, the initial tax cut will be clawed back with continuing high inflation in the next few years (Institute for Government)
- Increasing benefits by inflation is clearly more progressive than rising NI thresholds – it makes the most difference to the poorest, for whom this cost of living crisis is an emergency (Women's Budget Group)
- People earning under £34000 will pay less national insurance.
- Because of fiscal drag, everyone will pay more tax as they are dragged into higher tax bands. The average earner (£27000 per year) will be £400 worse off.
- Those on UC will also be affected by the taper rating getting £140 out of the £330 gain from national insurance threshold going up.
- State pensions and entitlements going up by 3.1%. (Note that the Scottish Government plans to up-rate those benefits for which it is responsible by 6% in 2022-23, rather than the 3.1% that would normally apply on the basis of September 2021 inflation) (SPICE).
- The Resolution Foundation estimates that just £1 of every £3 of support announced will flow to those in the bottom half of the income distribution. In cash terms, the new measures set out by the Chancellor are set to benefit households in the top half of the distribution by £475 on average, compared with just £136 for the poorest fifth of households. Middle income households gain most.

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- Income tax cut in 2024 will only see those earning over £49,000 paying less tax (Resolution Foundation).
- The reduction in the basic rate for non-savings-non-dividend income will not apply for Scottish taxpayers because the power to set these rates is devolved to the Scottish Government. Under the agreed Fiscal Framework the Scottish Government will receive additional funding, worth around £350 million in 2024-25.

Volunteering

Content

- No mention of volunteering in the document.

Net-zero transition/Climate

Content

- Not mentioned other than energy reliance and cut to tax for installing solar panels and heat pumps etc.

Other headlines and analysis

- Public debt down, household debt rocketing? (Women's Budget Group).
- Many organisations highlighted that the package won't make a big difference to the people and communities the voluntary sector works with.
- The Resolution Foundation recognised it as a significant but poorly targeted package of support.

Office for Budget Responsibility (OBR) forecasts

- HM Treasury and the ONS have published the latest public sector finances bulletin for February 2022, covering the latest estimates for public sector net borrowing, net debt and the current budget deficit and surplus. Public sector net borrowing excluding banks was £13.1bn in February, down £2.4bn on the same month last year, but £12.8bn more than February 2020. Central government receipts were £71.9bn for the month, up £5.8bn on the previous year, with tax receipts representing £53.7bn.
- The OBR cut their borrowing projections over the next five years by £42.4 billion.

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- See also ‘background’ at the start of the summary.

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