

Spring Statement

March 2018

Overview

Forever accused of being gloomy and dull, Philip Hammond struck an upbeat tone on Tuesday afternoon, despite delivering, as expected, a very boring Spring Statement. The Chancellor had promised no new tax or spending pledges in the new annual economic update, saying that these would now only happen once a year in the Autumn Budget.

Instead, he seemed to be almost celebrating, highlighting the strengths of the UK economy, announcing progress in deficit reduction and repeatedly claiming there was “a light at the end of the tunnel”. It can’t have been easy. Hammond is the standard-bearer of the Remain side in the Cabinet – those arguing that Brexit will severely damage the British economy. Perversely, a better economic outlook worsens his hand.

But Mr Hammond has come a long way from his Budget four months ago. Then, in the wake of the disastrous election and the loss of his party’s Commons majority, he was fighting for his political life, and under pressure to deliver more spending to help the Conservatives regain ground.

He is on much firmer ground now but it won’t be long before those battles come back to the fore as his party tries to find a way to reconnect with a generation of voters who are increasingly disenchanted with the status quo. Colleagues on both the left and the right of the party are calling on him to open the spending taps whether to build houses, fund school places, improve the health service, or cut taxes in time for an election that must take place before 2022.

Today’s news from the Office for Budget Responsibility of a slightly better outlook for government borrowing will only add fuel to that fire. The Treasury will not want to relax fiscal discipline any more than it already has – the effects of Brexit on the economy are still highly uncertain – but Hammond may well have to choose between maintaining his rectitude or staying in post the next time the budget comes around.

Labour attacked what it called Mr Hammond’s complacency. Shadow Chancellor John McDonnell emphasised the strain on public services, which he said are facing “a crisis on a scale we’ve never seen before”.

The Chancellor did open the door to more public spending on public services in the Autumn budget if the outlook improved and confirmed there would be a full spending review next year which would set totals for the year going into the next election and parliament.

He also set out plans to consult on a new VAT collection mechanism for online sales, to ensure that sales that occur on online platforms reach the Treasury. Alongside this, the Treasury has published a position paper on corporate tax and the digital economy – which the government intends to engage with businesses on further. It sets out the latest government thinking that while the preferred solution to taxing the digital economy is through international reform, there may be a need to consider interim measures such as revenue-based taxes.