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News in Review

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"The economy has recovered more quickly than expected, creating a growth dividend for the Treasury"

Some interesting data was released last week, which prompted speculation as to the Chancellor's intentions regarding the rise in National Insurance Contributions (NICs) in April. The data showed that government borrowing reached nearly £17bn in December; despite this being the fourth highest December figure ever recorded, the figure was below expectations. Total borrowing in the first nine months of the 2021-22 financial year was £147bn, £13bn lower than Office for Budget Responsibility (OBR) projections outlined in the Autumn Budget.

At £16.8bn, public sector borrowing was £7.6bn lower than the December 2020 figure. The OBR said the deficit was less than anticipated due to higher Corporation Tax, Income Tax and VAT payments. The drop in the UK's deficit led many commentators to speculate that a rethink about the planned increase in NICs could be on the cards as a cost-of-living crunch looms for many people.

Commenting on the Office for National Statistics (ONS) figures, Julian Jessop of the Institute for Economic Affairs, said this provides the *"fiscal room"* to discard the proposed NICs rise, adding, *"The economy has recovered more quickly than expected, creating a growth dividend for the Treasury. Higher inflation is increasing the amount that the government has to spend on interest payments on inflation index-linked debt. However, the accompanying rise in nominal incomes is also increasing tax revenues and reducing the burden of debt as a share of GDP."*

He continued, *"The government may still need to find more money later to fund a long-term increase in spending on health and social care, but the NICs hike in 2022–23 was intended to help with the one-off costs of fixing the backlog of NHS work caused by the pandemic. It is therefore entirely credible to use the growth dividend to pay these costs, rather than adding even more to the tax burden by raising NICs now."*

Heavily opposed but standing firm

Under the heavily criticised plans, employees, employers and the self-employed will be subject to a 1.25 percentage point National Insurance increase from April 2022 for a year. From April 2023, the extra tax will be collected as a new Health and Social Care Levy.

However, over the weekend, Boris Johnson and Rishi Sunak insisted the *"progressive"* £12bn NICs increase would go ahead, *"We must clear the COVID backlogs… We must go ahead with the Health and Social Care Levy. It is the right plan."*

Lisa Nandy, Shadow Levelling-Up Secretary urged the government to *"rethink"* the planned rise, "*You can't possibly hit people with more taxes at the moment. It's just simply not possible for a lot of people to survive."*

UK regains allure for global financial services businesses

A recent poll of senior decision-makers at international banks, asset managers and insurers, conducted by EY (Ernst & Young), determined that 87% of global financial firms intend to extend or expand operations in the UK this year – the highest percentage since 2016, and a marked increase on previous results (50% in 2021, 45% in 2020 and 11% in 2019). Notably, the vast majority (90%) of global financial services investors believe the UK will retain the same level of attractiveness or improve over the next three years. In addition, 87% of respondents said the UK offers the right environment for ESG (Environmental, Social and Governance) investment. UK Financial Services Managing Partner at EY, Anna Anthony commented on the findings, *"It's encouraging that such a high proportion of global financial services firms are currently looking to grow their business in the UK. This is testament to the stability and resilience of the mature UK market which continues to ably withstand the material challenges and uncertainty of both the pandemic and Brexit. As we look to the future of financial services, it's also positive that investors see the UK as the right place for growth in ESG, which, post COP26, is a major and increasing focus for boards."*

US economy advances at pace

Last week, official data from the Commerce Department showed that the US economy expanded by 5.7% in 2021 – its strongest performance since 1984. With the Federal Reserve signalling the imminent withdrawal of stimulus, growth is expected to moderate this year. On Wednesday, the Fed said it is likely to hike interest rates in March, the first increase since 2018, and reaffirmed plans to end its bond purchases in the spring also.

Here to help

Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.