CHAMPAIN
FINANCIAL SERVICES

Bawtry
Selsfield Road, Ardingly
Haywards Heath
West Sussex RH17 6TJ

01444 229 520
info@champain.co.uk
www.champain.co.uk

Technical Update No. 104 21st August 2022

All

Scammers prey on fears over cost of living

New figures from the National Fraud Intelligence Bureau show a threefold spike in reported financial losses to fraud and cybercrime in the first six months of 2021. Individuals and organisations in the UK reported losses of £1.3bn to fraud and cybercrime between 1 January and 31 July 2021, a threefold increase on the year-ago figure of £414.7m, as reported instances of cybercrime spike by seven times, rising from 39,160 to 289,437. This is according to newly published data collated by the National Fraud Intelligence Bureau, which has just been made available. The data reveals major spikes in reported instances of such crimes between January and March 2021, at the height of the UK's second major pandemic lockdown, with more than 137,000 crimes resulting in losses of £625.6m reported during the first quarter. Regionally, the biggest losses were seen in London, the South East and Eastern England, with over £629m lost to Londoners alone, £236.2m in the South East and £233.3m in Eastern England. This compares with losses of £47.6m across Scotland, £45.9m in Tarian – the Regional Organised Crime Unit covering the Dyfed-Powys, Gwent and South Wales Police forces, and £24.5m in Northern Ireland.

Champain Financial Services Ltd. is a member of Best Practice IFA Group Limited, which is authorised and regulated by the Financial Conduct Authority.
Champain Financial Services Ltd. Registered in England No. 6800575. Registered Office: Palmerston House, 814 Brighton Road, Purley, Surrey, CR8 2BR.
Best Practice IFA Group Ltd. Registered in England No. 4490633. Registered Office: Broadlands Business Campus, Langhurstwood Road, Horsham, West Sussex, RH12 4QP

All

Bank of mum and dad to gift and loan £25bn in the next three years

Gifts and loans from the Bank of Mum & Dad (BOMAD) will total £25 billion over the next three years (2022 – 2024), supporting almost half of all first-time buyer transactions, according to new analysis from property group Savills. In the three years to 2024, nearly half a million first time buyers (470,000), or almost one in two first time buyers, will get financial help from a parent or other family member, says Savills, as rising house prices put the pressure on those saving for a deposit. According to the latest Nationwide figures, house prices rose 11.0% on the year in July. Prices have now risen for 12 consecutive months (0.1% in July), which has kept annual price growth in double digits for the ninth month in a row, leaving many first-time buyers struggling to ensure their savings keep pace.

Lending is expected to have peaked in 2021 when 198,000 first time buyers had family assistance in getting their mortgage, around 49% of all mortgaged first-time buyers, up from 131,000 in 2020 and 136,000 in 2019. The Bank of Mum and Dad contributed a total of £10.7 billion towards the purchase of these homes – more than double 2019 (115% higher) – as a result of a more stringent mortgage market since the start of the pandemic which particularly affected higher LTV lending. Commentators noted that help from the Bank of Mum and Dad peaked last year as lenders exercised rate increases across high LTV loans. This meant more buyers looking to take their first step onto the housing ladder needed to take advantage of any family support to try and secure a deal at a lower rate. However, as ratios normalise over the course of this year, we can expect family assistance to fall back to levels seen prior to 2021 – at around £8.4bn.

Property Owner / Investor / Saver

Landlords struggling to find loans

Landlords have been left scrambling for mortgages as lenders have pulled buy-to-let deals from the market as interest rates soar. The number of available buy-to-let deals has plunged by a third since June as lenders withdrew 1,100 deals in two months, according to data from Moneyfacts, an analyst. In July alone, the number of available mortgages fell by 14%. Experts warned that banks are ditching their best buy-to-let deals as rising interest rates squeeze their margins. Rates on buy-to-let deals have rocketed in recent weeks. On August 1, the average rate on a five-year fixed-rate buy-to-let mortgage (across all deposit sizes) was 4.49%, according to Moneyfacts. This was a jump of 1.33% from the 3.16% average rate at the start of February – an increase of 42% in six months. Rates on two-year fixes jumped from 2.9% to 4.04% across the same period – a 33% increase. As of August 1, there were 2,375 buy-to-let mortgage deals available, compared to 3,484 at the start of February. There are early signs that the shrinking availability of good deals is eroding landlord demand, on top of the other challenges faced by investors. Until recently, record rent growth has brought landlords racing to buy despite the interest rate rises. Analysis by Nationwide Building Society showed that buy-to-let mortgage transactions in May were at their highest level since November 2021. But commentators have observed that demand from property investors is now in decline. Buy-to-let mortgage searches in July were static compared to June, but down around 10% compared to the highs in March. Lenders are ditching their least profitable deals, so-called “green” mortgages, whereby borrowers can get better rates for buying more energy efficient properties. Data from Mortgages for Business show that between May and July alone, the number of green deals for limited company borrowers fell by 42%

Property Owner

Mortgage misery following rate rise

The largest hike in interest rates in almost 30 years will push up mortgage payments for millions of people by hundreds of pounds a year as experts warned of a rise in repossessions. Last week's Bank of England (BoE) increase saw the base rate shoot up from 1.25 per cent to 1.75 per cent, the sixth consecutive rise in interest rates. Further interest rate rises could see a surge in home repossessions as struggling households go into arrears on their mortgage repayments, industry analysts believe. Three-quarters, or about 6.75m, of the just under nine million residential mortgages outstanding are on fixed rates, UK Finance figures show. Twelve percent, around 1.1 million households – are on standard variable rates and the remaining 9%, around 800,00 homeowners, are on tracker rates. Following the 0.5% increase, around two million homeowners on variable or tracker mortgages are set to see an automatic increase to their monthly payments. Around 1.3 million homeowners on fixed-interest deals due to end this year and 1.8 million whose deals expire in 2023 are also braced for steep rises. The average outstanding balance for a fixed-rate mortgage in the UK is £161,774. Fixed-rate mortgage holders whose deals are expiring, and who have to refinance on a higher rate after today's announcement, face paying on average around £222 extra each month compared to last year, when interest rates were 0.1%. A typical tracker mortgage holder with an outstanding balance of £121,034 will see their monthly payments rise by more than £50 a month, according to figures from UK Finance, which represents the banking and financial services sector. The rise to 1.75% means average tracker mortgage repayments will have increased by £166.42 a month on average since December 2021 when the bank's interest rate was 0.1%.

Estate Planner

IHT receipts jump to £16.1bn

HMRC collected a record £6.1bn in inheritance tax in 2021-22 – a jump of 14% on the £5.4bn collected in the previous year. It is the largest single-year rise since the 2015-16 financial year, when receipts rose by 22% (£848m). It means the average inheritance tax (IHT) bill has increased by £7,000 per estate to £216,000. The total number of UK deaths that resulted in an IHT charge has also increased. HMRC data shows there were 23,000 such deaths in the tax year 2019 to 2020. That’s an increase of 4% on the previous year. Everyone is entitled to a tax-free IHT allowance. But if the value of your estate exceeds it, it may be subject to IHT at a flat-rate of 40%. The increase to IHT bills is a result of these tax-free allowances. The nil-rate band (the total value of your estate that can be inherited tax-free) has been at £325,000 since 2010-11. The newer residence nil-rate band – the extra allowance given on a main home – was first introduced at £100,000 in 2017 and increased incrementally each year until it reached £175,000 in 2020-21. Both allowances are due to remain frozen until 2026, at which point IHT figures are predicted to have risen to £8.3bn, according to the Office for Budget Responsibility (OBR). This is coupled with rising property prices, which means an increasing number of people who were previously unaffected by IHT may soon find their estates exceed their allowances. If your estate comes under the scope of IHT, there are several steps you can take while you're alive to minimise how much will be paid to HMRC.

- Make use of tax-free allowances: Everyone in the 2022-23 tax year has a tax-free inheritance tax allowance of £325,000 – known as the nil-rate band. In addition, since April 2017, you've been able to pay less inheritance tax when leaving property to a family member. For the 2022-23 tax year, this transferable allowance is £175,000. Combined with the nil-rate band, that's a potential tax-free allowance of up to £500,000 per person.
- Make gifts: Giving your money away as a gift during your lifetime is a simple step people take to reducing inheritance tax.
- Other options: You can also reduce inheritance tax by putting your life insurance policy under trust, drawing up a deed of variation that allows your heirs to alter your will after death, or using an equity release scheme to make use of money tied up in property.

Investor / Saver

UK dividends increase

Investors have been going through a bumpy 2022 so far but UK dividends were strong in the second quarter of the year, the latest Link UK Dividend Monitor report shows. After a bumper first quarter, the second quarter of 2022 did not disappoint as the headline total of dividend pay-outs jumped 38.6% year-on-year, reaching £37bn. But investors should not be carried away. In spite of solid dividend programmes and a positive outlook for the rest of the year, the core forecast for the third quarter was adjusted down in consideration of waning "positive calendar effects", making progress harder in 2023. As the report outlines, the biggest dividend-paying sectors were mining, banks and oil, which, in aggregate, accounted for three-quarters of the Q2 year-on-year increase. Mining companies in particular took over as the biggest payers. According to Link Group UK and Europe corporate markets managing director Ian Stokes, this was on the back of favourable cyclical fluctuations and rising mining profits. Dividends from this industry have been the biggest engine of growth in the past two years and Stokes expects miners to remain at the top of the list for at least the rest of the year. But their 37% year-on-year increase on a headline basis came in slightly below Link Group's forecast, stirring concerns that they might have peaked. The second biggest payer was the banking sector, reflecting the release on pay-out constraints by the Bank of England. Banks accounted for two-thirds of the dividend increase and are expected to regain their position as the third largest dividend-paying sector this year for the first time since 2019. Third best was the oil sector. Its dividends increased 41% in the second quarter of 2022, but they are still at half their peak of 2019. At a time when oil prices are a politically sensitive topic, Shell, BP and other companies are choosing more discreet share buybacks to generate surplus, rather than distributing and committing to higher dividends.

Investor / Saver

The savings rate gap

The gap between mortgage and savings rates is growing as high street banks fail to pass on interest rate rises. Not one of Britain's nine biggest banks and building societies has raised its easy-access savings rates to match the 1.65 percentage point increase in the Bank Rate since December, according to data firm Moneyfacts. Barclays has the biggest gap between its mortgage and savings rates. It is easy-access savings rate is still at just 0.01%, but its "standard variable rate" mortgages have been increased by the full 1.65 points since December, in line with Bank Rate rises. Its SVR is now at 5.24%. Halifax, TSB, Nationwide and Lloyds are all offering the same SVRs, having fully passed on all six of the last Bank Rate rises. Nationwide has the second-largest gap between mortgage and savings rates, with easy-access accounts paying 0.18%. Lloyds savers are faring only marginally better with returns of 0.2%, while TSB and Halifax are at 0.25%. Santander has the smallest gap between mortgage and savings rates. Its eSaver (Issue 20) account now pays 0.75%, and although it has passed on the full interest rate rise of 1.65% to mortgage borrowers, its SVR is priced at 5%. HSBC has been the slowest to pass on rising interest rates to its mortgage borrowers, having bumped up its SVR by only 1 percentage point since December. Mortgage borrowers pay 4.54% now, the lowest rate. So even though savers have been stuck at 0.2%, the bank has the second smallest gap between mortgage and savings rates. Royal Bank of Scotland and NatWest have the same rates. They have raised SVRs by 1.15 points since December, meaning mortgage borrowers are paying 4.74%, while savers receive 0.2%.

All

Rising energy bills may hurt income more than you expect

Under the current price cap, a kettle costs about 4p to boil. Boiling the kettle three times a day will cost you £17.66 for the first three months of the new price cap. At the same time, lamps and desktop PCs consume negligible amounts of energy. The price cap is due to be reviewed again before January following Ofgem's decision to review the cap every three months instead of six. Analysts predict this will push the average check to more than £4,000. Charity National Energy Action has urged the government to update its energy bill support package to reflect new projections and ensure that the poorest households are adequately protected this winter, while making a "concerted" effort to make homes more energy efficient and lower bills. People should definitely be aware of how much they are spending on household appliances to try and use less. But no amount of sparing advice and energy saving advice will solve this crisis.

Investor / Saver

The impact of inflation on investing

Inflation has moved to centre stage since the start of year as a primary concern for ordinary households and investors alike. Recent surveys have confirmed inflation and the cost of living as being the public's number one worry. For advisers facing retail clients whose new benchmark for a positive real return might be 10 per cent, or even higher, the solutions are far from straightforward. The past two years have seen asset prices, both bonds and equities, rally aggressively from their immediate post-Covid slump, fuelled in large part by the combination of whatever-it-takes monetary and fiscal stimulus. Both of those tailwinds are turning rapidly into headwinds, particularly on the monetary side as central banks begin to focus their toolkit on taming inflation, making for a more volatile and challenging investment environment. The solution, according to many experts, is not to search for a single magic fix by trying to find the next big cryptocurrency, NFT or meme stock, but rather to build well-diversified multi-asset portfolios with enough flexibility to be able to take advantage of market dislocations that regularly arise in times of heightened uncertainty. When the market sells off it is certainly not at all always the right thing to simply buy the dip, but there are frequent occasions where the sell-off can be too indiscriminate and create selective opportunities to add positions in certain sectors or names. That requires an active multi-asset approach to scour the full range of investment opportunities across geographies and asset classes.

Retiree

A look at annuities

Has The Bank of England's steady march of interest rate hikes this year provided a new lease of life for annuities, the Cinderellas of the pension freedoms age? As of this July, it was possible for a 65-year-old with a £100,000 pension pot to buy a level income for life worth over £6,000 a year; those annuity rates are likely to rise further if interest rates continue to increase in the coming months. This uptick has already taken annuity rates to their highest level since 2014, before the introduction of pension freedoms in April 2015. Prior to that date, most people with defined contribution pensions were required to buy an annuity with their pension pot when they retired. But the changes introduced by then chancellor George Osborne hugely broadened the options at retirement, and retirees embraced their newfound freedoms enthusiastically. Many took the chance to cash in pensions (often smaller ones) entirely; the latest FCA data shows that 56% of policies accessed for the first time between April 2018 and March 2020 were fully cashed in. A further 29% were put into income drawdown, which enables retirees to leave their pensions invested while receiving a regular income from them. This growth came at the expense of annuities: just 16% of policies were used to buy an annuity in 2015-2018, and that fell further to 11% over the following two years. With rates for a level income for life at age 65 hitting an all-time low of less than 4.7% in August 2016, according to sharingpensions.co.uk, they were widely regarded as dull, poor value and inflexible. At the same time, global stock markets were enjoying a prolonged bull run and income drawdown seemed like an obvious choice for most younger retirees. Rising annuity rates have coincided with dramatically deteriorating stock markets this year, and the upshot is that annuities are looking more attractive. That is in part because interest rates are higher – for example, Canada Life's benchmark rates have risen by around 29% since the start of 2022 – but also because the alternatives look much less alluring. An annuity rate where as well as the return of your original capital you're getting underlying interest of say 3 or 4%, plus peace of mind, plus insurance against longevity, becomes quite difficult for drawdown to beat in the current environment. Where could you get a drawdown investment that pays a secure income of 3 or 4%after charges? As ever, talk to your adviser.

Property Owner

Where are UK property prices heading?

UK property prices have fallen by 0.1%, marking the first time they haven't increased for more than a year. Driven partly by the "race for space" and a trend for countryside living, property prices have soared in many areas of the UK since the start of the pandemic. But last month, the average price of a home fell to £293,221 — representing a 0.1% decrease month-on-month, according to the latest report from Halifax. The report also showed that mortgage approvals have fallen for the past five months in a row, which could also indicate that housing market activity is cooling. With the Bank of England increasing interest rates to a 13-year high of 1.75% recently, there has been an increase in fears that we are heading towards a property market crash. But what do the experts think? Whilst most commentators don't believe we will see a fully-fledged housing market crash, they do believe that prices will start to fall further as the cost-of-living crisis worsens and inflation continues to rise. With energy prices predicted to rise another 65% in October, people simply will not be able to afford the mortgage repayments on a lot of properties that they may have been able to manage previously. For first-time buyers, the market is hugely daunting at the moment and until prices decrease, people would benefit hugely from something being reintroduced like the Help to Buy scheme. There's a real absence of support at the moment which is leading to people being reliant on the Bank of Mum and Dad in order to get on the ladder.

All

Record wage drop

Over the past six months, Britain's unemployment figures have arguably been the economy's saving grace. While the labour market has been extremely tight – with job vacancies reaching their highest level on record – the headline unemployment rate has settled back at record lows, keeping at bay the last factor that often ushers in dreaded 'stagflation'. A recent labour market update still shows the unemployment rate sitting below 4% – with data from June alone at just 3.6% – as well as signs that the labour market is loosening, slightly, with the number of job vacancies appearing to have peaked. But all of this is secondary to the wage horror story playing out in the data. Recently, the Office for National Statistics revealed that wages have taken a plunge, falling at the sharpest pace ever seen on record. Regular pay (minus bonuses) sat at 4.7% between April and June – the highest pay increase in more than a decade, according to the ONS. But after taking inflation into account, this transforms into a 3% fall in real wages. In other words, workers are getting pay raises; but what would be seen as meaningful hikes in normal times stand no chance in keeping pace with inflation, which is now forecast by the Bank of England to reach a staggering 13% on the year. Even pay increases aren't preventing workers from feeling worse off. This news about the sharpest wage fall on record will serve as yet another reminder that the current plans on the table for getting through the upcoming winter are not going to cut it — especially for the most vulnerable households. It's been a dawning reality for leadership hopefuls Liz Truss and Rishi Sunak over the past few weeks that tinkering with VAT and even substantial tax cuts aren't going to bandage the effect soaring inflation is having on people's purchasing power.

Past performance is not a guarantee to future performance. You may get back less than invested.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts and reliefs from taxation are subject to change. The FCA does not regulate tax advice.

The content of this newsletter is for information only. It does not represent personal advice or a personal recommendation and should not be interpreted as such. Please do not act upon any part of it without first having consulted an Independent Financial Adviser.

For information about our services please contact Champain or view online.

END