Beyond the headlines:

Autumn Statement 2023

Overview from GK Strategy

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Analysis from GK Strategy Adviser

David Laws, Strategic Adviser

David Laws is a strategic adviser to GK. David has a wealth of experience across education and skills. Between 2001 and 2015, David served as the Liberal Democrat Member of Parliament for Yeovil. He held various senior frontbench positions for the party in Parliament, including as its spokesperson on schools, children and families, before joining the cabinet as Chief Secretary to the Treasury in the Coalition Government.

From 2012 to 2015 David was the Minister of State for Schools in the Department for Education. David has served as Executive Chairman of the Education Policy Institute and the Education Partnerships Group, and is currently the Chairman of Energy UK.

An overview of the Statement

The Autumn Statement has been long anticipated and there has been much speculation about what it might contain. Alongside a large number of really quite modest and generally forgettable policy proposals, two big changes stand out, which account for most of the Chancellor's "giveaway". These changes are, firstly, a large 2% cut in employee national insurance contributions (alongside reductions in self-employed NICs) - this will cost around £9.5bn in a full year. Secondly, the announcement of permanent "full expensing" of investment, which will eventually cost around £10bn per year. Neither measure is likely to be opposed by the main opposition parties in Parliament.

What else is noteworthy? Well, for a Government claiming to have a growth strategy, the growth forecasts in the Statement are feeble at best. The economy is expected to grow by a measly 0.6% in 2023 and 0.7% in 2024. More strikingly, the growth forecast for 2025 is only 1.4%, and for 2026-2028 averages just 1.9%. If growth really is this weak, then the UK will struggle to get its borrowing and taxes down, and it's public spending up. Of course, growth forecasts are frequently wrong, and these are so anaemic that it's tempting to think there may

David Laws, Strategic Adviser

be some upside risks, at least in 2025 and beyond. We need growth back at around 2.5% to help meet our fiscal challenges.

How are the tax giveaways being financed? Well, certainly not by "spare cash", but by using the Government's borrowing rules to the full - using the expected borrowing undershoot to reduce the planned increase in the tax burden! And that is one reason why no one is going to feel particularly wealthy after this Budget - the tax cuts will only partially offset the existing massive, planned tax rises, from failing to index tax allowances for inflation. The tax burden as a share of the economy is still expected to rise to 37.7% of GDP by 2027/28 - a postwar high. Rising taxation is one of the reasons which the Office of Budget Responsibility is forecasting that living standards will decline by 3.5% by 2024/25, from the pre-pandemic level. That is the largest such fall since records began, in the 1950s. This is not an easy background for a Chancellor trying to win an election in just a year's time.

Meanwhile, the Chancellor resisted the temptation to reduce the uprating of either pensions or benefits. The former will rise by 8.5% next year, and the latter by 6.7%. The Government is clearly keen not to upset the key pensioner voter group before an election and has decided that the cost-of-living squeeze requires a full benefits indexation too.

Meanwhile, to allow the Chancellor to forecast falling borrowing and debt in the future, he has stuck with his forecast that from 2025 onwards public spending will grow by just 1% per year in real terms. This would be very difficult to achieve and is probably an ill-disguised trap for the Labour Party - the same "trick" that Ken Clarke attempted in 1996/97.

What else can we say about this Statement? Economically, the Government's evident determination to announce tax cuts before the election means that further fiscal "stimulus" will likely come with the Spring 2024 Budget. It is notable that the

Chancellor has even insisted that the national insurance cut should take effect from January rather than April. This is highly unusual and will irritate the experts in HMRC. In Spring 2024, expect plans to cut and then phase out inheritance tax - which would seek to draw a dividing line with Labour. Expect plans to increase the future level at which the 40% income tax starts - the current freeze in allowances would otherwise sweep three million more people into paying this tax by 2028. Expect also, perhaps, 2p off the basic rate of tax by or around election day.

These tax cuts, and inflation expected above target for next year, probably points to UK interest rates staying at their existing level for most of 2024. But the next rate move, when it comes, is probably more likely down than up.

And what about the politics? Well, the present situation feels very similar to that of 1995/97. A Conservative Party which has probably been in power too long. A Government which has lost its reputation for economic credibility, and which is internally divided. High budget deficits and a big long term tax rise, with modest pre-election tax cuts which make only a limited political impact. Implausibly tight public spending plans for the post-election period. For Jeremy Hunt read Ken Clarke, the Chancellor back in 1994/97. Ken was a little more cautious in his pre-election tax cuts (1p off the basic rate of tax in each of the 1995 and 1996 Budgets) than Hunt looks as if he will be. And that could be politically important. But, otherwise, are we heading in 2024 to the same political outcome - a landslide Labour win?

Well, quite possibly. And the Conservative prospects for remaining in Government look bleak beyond next year. But there are two big differences which are still important. In 1997, Blair already had 271 seats in the Commons. Today, Starmer has just 198. That is a mountain to climb. And in 1995/97, the polls were even more favourable to Labour than they are today. Indeed, Labour often polled above 50%. But their outcome in the actual election of 1997 was just 43.2%. Labour today are in the mid-40's. Could their poll rating yet dip before the election, as the Conservatives claw back some support, and perhaps as other parties like the Lib Dems, Greens and Reform UK improve their positions? This seems very possible. We have less than a year before the next election, and there is much to play for. What is clear again today is that the economy and living standards will once again be centre stage in the political battle.

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Analysis from GK Strategy Adviser

Phil Hope, Strategic Adviser

Phil Hope is a former MP and Minister of State for Care Services alongside various other ministerial roles. Phil works with the GK team on all matters health and social care, including providing strategic support to investors during the investment process. While Care Services Minister, his work included development of the National Care Service White Paper, the National Dementia Strategy, the National Mental Health Strategy, and the National Autism Strategy. As an adjunct professor at Imperial College's Global Health Institute, Phil continues to have strong relationships with leading healthcare stakeholders.

Reflections on Health

The Autumn Statement 2023 focuses on measures to stimulate economic growth. There are no significant announcements on health and social care other than a recommitment to the previous spending announcements in Autumn 2022 and Spring 2023.

The major announcement of an increase to the National Living Wage (NLW) in 2024 will be of direct benefit to those on low pay in the social care workforce; and the cut in National Insurance contributions from 12% to 10% will be of benefit to all staff across the health and social care workforce.

It will be good news for the 140,000 care workers (17% of the total care workforce) employed in residential care homes or in care-at-home services who receive the NLW. This is also likely to have a knock-on effect of increasing the pay of care workers currently paid just above the current NLW.

However, whilst the increase to the NLW is welcome, there is a serious sting in the tail. This unfunded increase will put significant financial pressure on care providers and local authorities that pay the fees for social care services for those on low incomes.

Phil Hope, Strategic Adviser

Furthermore, the 2024/25 NLW will still be below the £12 per hour of the Real Living Wage (RLW) that takes into account inflation and other costs. The RLW will be reviewed and increased in October 2024. Many care providers currently seek to pay the RLW but may not be able to do so if that increases significantly as well. As workers in all sectors (not just care) on the minimum wage will receive the higher NLW, the increase will not resolve the problem of shortages in the care workforce resulting from competition for staff from other sectors such as retail.

Many care providers will now be urgently reviewing their financial position to assess the impact of the extra costs they will need to meet at a time when council fee rates are unlikely to go up to meet them.

In short, the Autumn Statement has increased the cost of delivering care services for care providers and councils without providing a way of meeting them.

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Sector Analysis

Business Tax and driving growth

What the Autumn Statement means for business tax rates and economic plans to stimulate growth

"Cutting tax and rewarding hard work" and "backing British business" were two key strands of Hunt's Autumn Statement – indicative of an effort to supercharge the economy following a sluggish growth period and an upcoming General Election. Yet despite the Chancellor characterising his fiscal reforms as part of "the largest business tax cut in modern history", he has faced some criticism over the effectiveness of these changes.

The centre piece of Hunt's tax cut announcement was a 2 per cent cut to the rate of employee national insurance contributions (NICs), and a one per cent cut to the rate of NICs for self-employed individuals. For the latter category, Class 2 self-employed NICs – a further charge placed on those who make profits above the lower profits limit – was abolished. While the reforms affecting self-employed individuals will come into effect at the beginning of the next tax year (April 2024), Hunt announced plans to fast-track legislation to introduce the 2 per cent cut to employee NICs from January 2024 – leaving commentators speculating as to whether an earlier tax relief is a sign of a party ready for an earlier-than-expected General Election.

A primary tenet of Hunt's pledge to stimulate British business – amongst a self-proclaimed '110 supply side measures' – was the decision to make permanent a full expensing regime, so that capital expenditure on plant and machinery can be deducted from business' tax bills – a regime that was originally meant to expire in 2026. Many of the pledges to boost British industry were directed towards small and medium sized enterprises (SMEs), including the extension of a 75% tax relief scheme for businesses in the retail, hospitality and leisure industry, up to a cash cap of £110,000, and increased tax incentives for R&D-intensive businesses, such as a merger of the existing RDEC and SME schemes into a more simplified relief system. This has led to some criticism from larger retailers, whose business rates will continue to rise with inflation, and who feel left out of the business-stimulating package delivered by the Chancellor. Simultaneously, dissatisfaction from the business lobby stems from the almost 10% increase of the national living wage from £10.42 to £11.44.

The loudest criticism of Hunt's statement though, has focused on the decision by the Government to insist on the magnitude of tax cuts being introduced, while choosing to ignore the reverse effect of 'fiscal drag'. Various income tax thresholds have been frozen and are expected to remain as so until at least April 2028. The most recent statement brought forth further threshold freezes including the Lower Earnings Limit – the threshold for making NICs based on weekly earnings – and the Small Profits Threshold. This has led critics to point out that while the tax burden has ostensibly been lightened by Hunt's slashing of NI, the result of longer term 'fiscal drag' means that the tax burden is actually higher than it was at the 2019 election. The Office for Budget Responsibility (OBR) – the Government's fiscal watchdog – pointed out that threshold freezes mean that by 2028, 4 million more people will be paying income tax for the first time, and 3 million more will reside in a higher tax bracket.

Given the Statement was an opportunity to establish some credibility and direction following a year of underwhelming poll performance, reactions to Hunt's announcement ranging from hesitancy to outright incredulity mean that he is unlikely to be totally satisfied. The Conservative Party will be looking to the Spring Budget now as one of their final opportunities to influence voters pre-Election, while hoping that the measures brought forward in this statement will succeed in making tangible differences for working people and British businesses.

Keeping 'Levelling Up' alive

What the Autumn Statement means for the Conservative Government's Policy on "Levelling-Up"

Since Rishi Sunak took office, it's been clear that Levelling Up has not quite been the hallmark of his Government that was promised by Boris Johnson in 2019. It's true we've seen some important legislation that has been working its way through Parliament (for example the Levelling Up and Regeneration Act and Social Housing Regulation Act), but it's been clear there has not been the same focus or attention on Levelling Up and the built environment. However, there certainly were some interesting announcements in Hunt's Autumn Statement.

The headline for Levelling Up in this Statement is the four new devolution deals across England, marking a big forward step on the road to devolution and suggesting that delivering on the promises in the Levelling Up White Paper 2022 do remain commitments. The new settlements include two mayoral deals (level three) with Greater Lincolnshire, and Hull and East Yorkshire and two less extensive non-mayoral deals (level two) with Lancashire and Cornwall – with a view to extend similar level two deals to many other local authorities. Further announcements were made for new funding settlements for Greater Manchester and West Midlands Combined Authorities towards becoming the first trailblazer deals, first announced in the Spring Budget 2023. These new announcements have been warmly welcomed by the council leaders for the areas, who say this is a sign of trust and faith in their plans for the area.

However, large swathes of the country remain without their own devolution deals and so careful considerations will need to be made, not just over the sequencing of future deals, but also financing the settlements. Indeed, there is still a lot to be decided about how broad the devolution remits will go, with some in the sector viewing that they should expand to cover adult skills, housing, transport, and net zero.

Another well trailed announcement was for the third round of Levelling Up funding to the tune of £55m, in addition to £37.5m to support specific regeneration projects, largely across the north of England, which will be welcomed by the successful bidders – primarily allocated to Conservative constituencies it should be noted.

What was less from the "Johnson Levelling Up playbook" was the expansion of Investment zones, which received extension from five years, to ten, and will be supported with £160m. Three new manufacturing investment zones in Greater Manchester, East Midlands and the West Midlands were also announced – billed to bring in £3.4 billion and generate 65,000 new jobs – as well as a new Investment Zone for Wrexham.

Another policy debate that has generated cross party support, and that featured strongly in the Autumn Statement, is the desire to improve the state of the electricity grid infrastructure. The introduction of the new Connections Actions Plan will be a joint effort with Ofgem to bring the average wait time for a grid connection from five years to six months. Similar ambitions for electricity transmission network build will be delivered through a Transmission Acceleration Action Plan. This will be welcome to not only businesses waiting for grid connections, but also to the cities across the UK who can look forward to faster electrification.

Hunt's "Statement for Growth" therefore certainly had some callbacks to the Boris Johnson years and the 2019 manifesto commitments, which will please prominent regional Tory figures like Ben Houchen and Andy Street. In fact, on this theme there will be little for Labour to really object to – beyond the argument that they haven't gone far enough, quickly enough. This in of itself is a valid point, but it means the onus will be on Labour to match, or indeed exceed, the pace and scale of these measures in order to make good on its promises and reclaim those red wall seats that have felt left behind by successive Governments.

Making pensions work

What changes the Autumn Statement has made to the pensions system

In a noticeable contrast to the King's Speech earlier this month, the Autumn Statement contained several announcements related to pensions. Most of them pertained to the Mansion House Reforms, unveiled by the Chancellor earlier in the year, which, in part, aim to provide better outcomes for savers.

It is the Government's decision to consult on the launch of a 'lifetime provider model' for employees that perhaps stands out as the most far-reaching of the pension announcements. This proposal would provide a legal right for a new member of staff to request that their pension contributions are paid into their existing pension scheme. The Government hopes that this would help solve the issue of savers accumulating several pensions pots, some with only small sums, over the course of their working life, which has been a growing concern of the pension sector since the introduction of auto-enrolment under the Coalition Government in 2012. It is also believed the greater agency and control that this would provide would increase engagement amongst savers.

Australia have adopted a similar approached in recent years, which has been judged to be a success. However, industry experts have warned that the system would be complicate to establish and place a great administrative burden on businesses.
The same call for evidence will also explore the potential for an expanded role for collective defined contribution (CDC). If pursued, members and employers would make fixed contributions into a collective fund, which would then be pulled together alongside other members.

Separately, the Chancellor also announced that the Government would honour the triple lock and provide an 8.5% increase in the state pension from April 2014. While this move was broadly welcomed, it has also been noted that those in retirement will be paying income on their state pension by 2028 due to the Chancellor's decision to maintain the freeze on the personal allowance tax threshold.

Knocking on the door for a new housing system

What changes the Autumn Statement means for housing

Housing remains one of the most salient political issues of the day. A year out from a General Election, the Chancellor made several announcements that sought to tackle the limited housing stock and the rapid rise in the cost of rental accommodation. In targeted support for those on lower incomes, the Chancellor revealed that the Government will raise Local Housing Allowance (LHA) rates to the 30th percentile of local market rents in April 2024. With the ONS reporting that private rental prices increased by an average of 5.7% per year across the UK in the 12 months to August, the Treasury claim that raising the LHA rates - for the first time since 2020 - will save 1.6 million households £800 over the next year. The move was welcomed by Matt Downie, chief executive of Crisis, who claimed it was "...in the short term, the single biggest step the Chancellor could take to prevent and end homelessness for tens of thousands of households."

However, without a rapid expansion in the number of homes being built, rental prices will continue to increase. To this end, the Chancellor declared that the Government would invest a further £32 million in housing and planning to tackle planning backlogs in Local Planning Authorities (LPA), as well as pursue a new Permitted Development Right to enable one house to be converted into two flats, as long as the exterior remains unaffected.

Furthermore, the Chancellor highlighted that £110 million will be dedicated over the course of the next year to nutrient mitigation schemes. These will look to ensure developments are nutrient neutral, and it is hoped it will lead to a further 40,000 homes being built.

Green fingers and greener policies

What the Autumn Statement means for green policies and environmental legislation

On the climate and environmental front, there were not so many eye-catching measures announced which could compare with a national insurance cut, but there were some big-ticket measures confirmed by the Chancellor. Namely, confirmation that the Government has committed to £600 billion of infrastructure investment over the next five years, and the provisions to loosen planning regulations and speed up grid connections. These measures should go some way to quell the clamours for action from those in the energy sector. Spending £32 million to recruit and train planners to tackle the backlog is a practical approach, and granting low carbon energy projects national priority designation should considerably speed up the process that projects are able to get off the ground – slow planning approval has consistently been one of the key criticisms of Government policy in recent years, so any measures to speed up the process are likely to be welcomed.

Equally, the publication of the Grid Connections Action Plan is a big step in the right direction. Aside from planning processes taking too long, grid connections for low carbon energy projects have routinely been highlighted as being too cumbersome and taking too long to deliver. The Government has noted that in order to deliver the net zero energy system, which is necessary to achieve economy-wide net zero, transformation of the network at scale is required. Removing the barriers – principal of which is 'the queue' – can rapidly increase the amount of low and zero carbon generation and ensuring that stalled projects are removed from the system to release capacity, should considerably improve connection times.

Aside from these two announcements, the Chancellor noted there would be £960 million made available for a new Green Industries Growth Accelerator, which will support strong clean energy manufacturing capacity across the UK and seize opportunities from the global net zero transition, particularly in Carbon Capture Utilisation and Storage (CCUS), hydrogen, offshore wind, electricity networks, and nuclear.

Further Information

Our Team is happy to further elaborate on our assessment and assist clients in any policy, publica affairs, crisis comms, or public relations needs.

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