AUTUMN STATEMENT 2023

HUNT'S BALANCING ACT

Compared to last year's Autumn Statement, when Jeremy Hunt was tasked with restoring the UK's economic credibility following the fallout from Liz Truss and Kwasi Kwarteng's mini budget, the Chancellor addressed the Commons today in a relatively upbeat and jovial mood. However, the economic data underpinning the Statement and set out in the Office for Budgetary Responsibility's Economic and Fiscal Outlook made for grim reading.

The combination of stagnant economic growth, persistently high inflation and the freezing of tax bands will continue to squeeze living standards, with the OBR forecasting that real household disposable income will still be below its pre-pandemic level by 2024-25, representing "the largest reduction in real living standards since ONS records began in the 1950s." The OBR also forecast that inflation would create a £19.1bn black hole in departmental spending by 2027.

However, the Chancellor was able to benefit from the double-edged nature of inflation in the form of higher tax receipts, and some of what he took with one hand he gave back with the other via a series of crowd-pleasing measures. The centrepiece of this is the 2 percentage-point cut to Employee National Insurance, as well as maintaining the triple lock with an 8.5% increase in the state pension and the freeze in alcohol duties.

These measures, as well as the more business-facing measures such as making full expensing permanent, are the Government's attempt to strike a delicate balance between maintaining fiscal credibility, addressing constraints on the UK's economic potential, mollifying restless Tory MPs and giving voters some tangible relief on living standards ahead of the general election that could take place as early as next spring.

As a result, today's Autumn Statement felt disjointed. Whilst the Chancellor would have wanted his theme of incentivising business investment and stimulating economic growth to shine through, at times the Statement gave the impression of a patchwork of announcements, some of which are long-timist in their scope while others felt like placeholders designed to buy time and political breathing space.

Question marks will remain as to whether anything the Government does between now and polling day will be able to improve the Conservatives' electoral chances, but the Chancellor will be quietly happy with today's events. How long that mood remains will be seen in the coming days when businesses and analysts alike have the time to truly delve into the detail.

The initial assessment of the well-respected, independent Institute for Fiscal Studies was not positive, with Director Paul Johnson warning that "there is a material risk that those plans prove undeliverable and today's tax cuts will not prove to be sustainable."

WHAT HUNT SAID AND WHAT IT MEANS

Ahead of the Statement, a long-serving former Cabinet Minister told EGA from the back benches that ‘a large hare would need to be pulled from the Chancellor’s hat if the slightest bit of difference is going to be made to the polling numbers’. This set the tone for many parliamentarians as they sat down to listen: could the Chancellor change the political weather?

With rumours about his political future seemingly quashed, the Chancellor will have been hoping that within what he branded an ‘Autumn Statement for Growth’, his Conservative colleagues, businesses and voters would find good news. The ever-more-divided ranks of Conservative MPs have been pressuring the Chancellor for months to introduce tax cuts.

Those who were hoping the Chancellor would abolish inheritance tax or increase the threshold for the higher rate of income tax were disappointed, but they did get some good news in the form of the cut to the headline rate of National Insurance Contributions from 12% to 10%, a tax cut for around 27 million working people. However, once they have fully absorbed the reality that the overall tax burden is increasing as a result of the frozen tax bands, expect them to bank this and step up the pressure for further relief at the next available opportunity.

For businesses, the Chancellor announced today what he described as “the biggest business tax cut in modern British history”. As widely expected, the Chancellor confirmed that full expensing – the ability for businesses to offset the full cost of qualifying plant and machinery investment against their taxable profits – will be made permanent, a hefty tax cut amounting to around £10bn a year. This will be welcomed right across the business world and was described to EGA by a Special Adviser as “brilliant and very welcome news.”

These reforms, as well as changes to R&D tax reliefs, the removal of barriers to infrastructure investment, business rates reforms, all designed to drive investment into the UK, highlight the Chancellor’s recognition that action is needed to address the UK’s stagnant growth prospects. Equally, in opting to focus his efforts on reducing National Insurance as opposed to Inheritance Tax – as had been floated in the media –Hunt prioritised stimulating economic growth and rewarding work.

However, the reality is that many of the measures that he is putting in place are direct attempts to address an economic situation that has developed under a series of Conservative Governments – many of which he has himself served. This fact severely limited his ability to score political points in the way the George Osborne could when attempting to bring down the deficit, although he did his best to contrast his sober and pragmatic stewardship of the economy and the public finances with the spectre of a big government, high spending and high tax Labour party.

More broadly, the Chancellor will be hoping that the measures contained within his speech today will help move the political dial. Increasing the national living wage, uplifting Universal Credit and other benefits by the higher option available to them and maintaining the triple lock are all policies which will directly impact the lives of those who will be determining the Government’s fate at the ballot box next year.

LABOUR’S RESPONSE

Shadow Chancellor Rachel Reeves was excoriating about today’s Autumn Statement. “The Government has failed on growth, failed on debt and failed on the cost of living,” she told the Commons.

Her anger was rooted in the Autumn Statement’s £19 billion in effective spending cuts, with the tax burden rising through to the end of the decade. Fiscal drag is forecast to make up for more than the Chancellor’s cut to National Insurance, house prices are projected to fall by around 5% next year, inflation has been revised up and growth is expected to be stagnant out to the end of the forecast in 2028. All this is predicated on public spending cuts put in the forecast for after the General Election – deferring tough public spending decisions to the next government, be that a Labour government or an unlikely fifth term for the Conservatives.

Setting out the battle lines for the forthcoming election, Reeves told the Commons: “They have held back growth… crashed our economy… increased debt… trashed our public services… left businesses out in the cold… and made life harder for working people. Our country cannot afford five more years of the Conservatives.”

Labour Leader Keir Starmer later said: “Prices are still rising, energy bills are up and mortgage payments are soaring. With 25 tax rises since 2019 the Tories are the party of high tax and low growth.” Polls continue to show the public trust Labour on the economy more than the Conservatives. This is a historically rare situation and is a precious piece of political capital that Labour will want to retain going into the election. To do so, they will continue to hammer home the message of Tory failure.

This narrative helps mask that Labour will back many of the Autumn Statement measures on their own terms – they called for full expensing months ago and will also support the proposals to drive productivity and innovation in the private sector. Labour don’t view this Autumn Statement as the ‘fantasy economics’ of the Truss/Kwarteng mini-budget.

Having said this, in Labour’s eyes the measures announced today don’t come close to dealing with the scale of the challenge, and Reeves reiterated that Labour would go much further in areas like planning and pension reform.

The talk on the Labour benches today was of a Spring General Election. The Chancellor’s National Insurance cut prompted one Labour frontbencher to message EGA “ELECTION INCOMING!” So, while Starmer and Reeves are honing their attack lines Labour MPs will be heading back to their constituencies to step up election preparations.

WHAT IT MEANS FOR BUSINESS

With many companies still grappling with higher operation costs, labour shortages and high interest rates – hindering investment plans – the weight of expectation was on Jeremy Hunt to deliver an Autumn Statement that would live up to the Government’s extensive pre-briefing and present the country with the winning solution to “get Britain growing”.

The Statement comes just a day after Andrew Bailey, the Bank of England Governor, warned markets against underestimating the persistence of UK inflation, confirming we should expect to see high interest rates for an extended period of time – echoing what we’ve heard from the other big central banks. Despite easing the fears of many that interest rates could rise again this year, his comments somewhat dampen the Government’s recent attempts to celebrate reaching the Prime Minister’s target set in January of halving inflation by the end of the year from the 10.7% average in the last quarter of 2022 – still more than twice the 2% target. It is against this backdrop that the Chancellor argued today’s plan would “remove barriers to investment, reward effort and work”.

The introduction of permanent ‘full expensing’ was one of the most eye-catching business announcements, which will result in significant benefits for businesses looking to invest in buildings, structures and equipment. For every £1 that a business invests in IT, machinery and equipment, they will be able to claim back 25p in corporation tax. Described by more than 200 businesses as “the single most transformational thing [he] could do for business and growth”, the Chancellor said the announcement marks the “largest business tax cut in modern British history”. The general consensus from the business community is that it will give them the stability they need to push on with investment decisions whilst keeping the UK at the top table internationally for investment incentives.

It was also a good day for the hospitality industry, with a freeze on alcohol duty until next autumn. The Chancellor also announced a freeze in the way business rates are calculated for an extra year and maintained a 75% discount on rates for hospitality for another year too. This could go some way to soothing concerns following yesterday’s announcement that the Chancellor has accepted the recommendation to increase the National Living Wage to £11.44 per hour from April 2024, which will apply to 21 and 22-year-olds for the first time.

The Government will hope that the measures announced today will go some way to helping the party gain ground on Labour – something the Prime Minister’s numerous resets has failed to do in recent months. With the Conservatives still trailing Labour by 21 points, it remains to be seen if the Government’s plans to “turbo charge growth” can translate into electoral success.

The stark reality is next year the UK is forecast to have the slowest growth in the G7, and the outlook beyond that isn’t much better. So, while ‘full expensing’ and the National Insurance cut from 12% to 10% – benefitting around 27 million from January 2024 – are the immediate headline winners, thanks to the 2021 freeze in income tax / National Insurance Contribution thresholds, the UK’s overall tax burden is still heading for a post war record high.

Policy Focus

ENERGY AND MANUFACTURING

Business groups reacted with surprise and concern when the Prime Minister announced his 'new approach' to net zero in September. Having introduced uncertainty into the policy framework with that speech, business demanded that the Chancellor provide clarity, commitment and ambition in this Autumn statement.

Responding to this, the Chancellor today said: "For our advanced manufacturing and green energy sectors, international investors say the biggest thing we can do is to announce a longer-term strategy for their industries. So, with the Secretaries of State for Business and Trade and Energy Security and Net Zero, I am today publishing those plans."

Today's announcements will have gone someway to assuage business frustrations about the credibility of the UK's green commitments. The renewable energy sector has welcomed the confirmation of permanent capital allowances, reform to the planning system and acceleration of grid connectivity. The announcements, made on Friday of £4.5bn in "strategic manufacturing sectors" including £960m for the Green Industries Growth Accelerator, is also not an inconsiderable figure for targeted public investment.

These spending and tax changes are to be supported by institutional reform to how Whitehall attracts overseas investors. In their response to Lord Harrington's review, the Government announced that they accepted all of his headline changes including "personalised account management for the most strategically important investors" and the establishment of a new Ministerial Investment Group to drive forward these changes.

In the Spring Budget, the Chancellor decided he needed more time to calibrate the UK response to the Inflation Reduction Act as the UK could not compete with either the US or the EU in a "global subsidy race". Instead, the UK would back the industries of the future, and "target public funding in a strategic way in the areas where the UK has a clear competitive advantage."

The Chancellor has now shown how he wants to catalyse private investment. Having waited since March for the UK's response, the question will remain, however, whether today's announcements will secure the scale of net-zero infrastructure that is required or be enough to encourage investors to see beyond the immediate supply chain cost pressures that they face.

THE POLITICAL ROAD AHEAD

A serving Government Minister told EGA following the Statement that while she welcomed tax reductions – especially to business taxes – the measures set out were not adventurous enough to have a public impact: "This isn't going to shift the dial ahead of the next election – it'll be pretty difficult to explain these changes on the doorstep." This captures the broader mood of the Conservative Parliamentary Party and indeed, most of the remaining Party faithful: what matters most now is the general election.

The polling figures show the degree to which the Conservatives have lost support since the country went to the polls in 2019. With support hovering at around 20%, the Party is staring down the barrel of a catastrophic defeat, and such predictions are taking a heavy toll on morale. In recent months EGA has only heard one politician say they genuinely believe the Party can win a majority – and this was the Chancellor himself. This gloom now forms the prism through which events such as the Autumn Statement are invariably viewed.

If today's Statement was intended to change any of that, it truly constitutes a last throw of the dice. Time is not on the Government's side if rumours of a Spring election are borne out – a senior Party source told EGA today that this is "very much on the cards". In the eyes of many commentators, this explains the Chancellor's decision to bring forward the National Insurance cut to January, as opposed to waiting until the new financial year in April.

Whenever the election takes place, we know that the polls will narrow – and this matters in the context of fiscal events such as today. If Labour are propelled to power with a 150-seat majority, their scope to make economic interventions will be far-reaching. If their majority is closer to a more modest 50, however, it will be much harder for them to distinguish themselves from most of what the Chancellor announced today; beyond delivering on the Five Missions, there will be almost no room for new measures, and Party strategists will be far more sensitive to private sector investment decisions and the whims of individual backbench MPs.

Whatever the Party's parliamentary strength post-election, reforms will have to be made if they are to keep their promises. Businesses and taxpayers who have benefitted from today's Statement will be watching closely to see what Starmer keeps and what he junks, given that the Labour Party's ambitious programme of government requires spending not possible under the strictures that the Conservatives have implemented over the last 13 years.

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