

2022 Autumn Statement

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AUTUMN STATEMENT 2022

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The half-and-half chancellor



Jeremy Hunt made much of the difficult decisions he faced in his first proper fiscal event as Chancellor of the Exchequer. Tax rises and spending cuts in equal proportion would, he argued, provide fairness. This is, in reality, an arbitrary choice that seeks to politically balance the calls from those that would prefer spending cuts and those that would prefer tax rises. There is no denying the overriding aim the Government today was to consolidate its fiscal position and reassure markets after the fallout from the previous Chancellor's disastrous "mini-Budget" mere months ago.

Hunt may not have been Rishi Sunak's personal choice for Chancellor however the tone struck between the two in recent days suggests that they have taken to heart that the Conservative Party needs to 'unite or die'. That unity has to last across a supremely economically difficult period if it is to reap any political windfalls. Real household disposable income per person is set to fall 4.3% this year, and 2.3% the year after as inflation remains stubbornly above target. Unemployment is due to increase from 3.6% to 4.9% in 2024. Interest rates will likely

continue to rise while the Bank of England seeks to reduce the inflation rate. In the meantime the Conservatives will say that their policies are seeking to strike a balance between maintenance of public services, while not raising taxes to the point that it chokes off economic growth required to pay for them.

The political choice to introduce two new fiscal rules, that within five years debt has to fall as a proportion of GDP and public sector borrowing must be below 3% of GDP, shows a Chancellor that has his eyes both on restoration of national economic credibility in international capital markets but also political credibility in the eyes of an electorate burned by the short and tumultuous Truss premiership. They also represent an attempt to corner the Labour Party, following their economic playbook and challenging them not to make policy pledges that expand the size of state spending. This trap is extended further by government pledges to support capital projects such as the building of Sizewell C nuclear power station, continuation of HS2, and Northern Powerhouse Rail, as well

as with R&D funding increasing while at the same time keeping development spending below the 0.7%. Taken together these could force the opposition into a debate on spending framed in Tory terms.

Tory backbenchers were muted throughout the Statement, and sombre in hearing the figures showing the real hardship that families and businesses up and down the country will face in the months ahead. There were a few exceptions though, throwing their weight behind the extra spending on the Health and Social Care budget, in education, in the maintenance of capital expenditure, and in continuing the pensions triple lock. Hunt and Sunak’s prioritisation of protection for pensioner budgets and projects in the Red Wall should be seen as a clear attempt to stymie the bleed of votes that has happened in recent months and shore up the same coalition that voted for the party in 2019 ahead of the next election.

Ahead of that election the blame game for the pain the country is feeling at present is well and truly under way.

Hunt began his statement by blaming unprecedented global headwinds, before labelling the economic downturn a “recession made in Russia,” and citing the Office of Budget Responsibility as confirming that “global factors” are the “primary cause of current inflation.” The Labour Party’s response was that the problem was “made in Downing Street.”

Who voters blame for the decrease in their purchasing power and the diminished opportunities in their lives will ultimately decide the next election. Hunt and Sunak are looking to reap the benefits of prudence now and signs of growth later, and hope to do so off the back of rebuilt economic credibility. “Britain is on the right track, don’t turn back” might well be something older political aficionados will recognise. The Labour Party, on the other hand, have already started to repeat the message: don’t forgive, don’t forget.



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Summary of key announcements

Following months of political turmoil, the Chancellor Jeremy Hunt's Autumn Statement attempted to calm the markets and restore the UK's economic legitimacy. The Chancellor announced measures to restore stability, protect public services and build long-term prosperity.

First, the financial reforms combine fiscal drag and tax increases to restore public finances. The Chancellor outlined the economic impacts of the war in Ukraine, COVID-19, and his predecessor's 'mini-Budget' - proposing measures to rebuild economic order.

Second, the Chancellor summarised the plans to initiate growth, focusing on renewable energy, levelling up and economic regulation. The Chancellor aims to drive innovation and competition, cementing the UK's long-term prosperity.

Third, in response to the economic turmoil, the Chancellor defined the protection implemented for public services and the most vulnerable in society. A summary of the relevant key measures is outlined below.

Filling the fiscal hole

- For a further two years, until April 2028, allowances and thresholds for Income Tax, National Insurance and Inheritance Tax will remain frozen.
- Income Tax additional rate threshold will be lowered from £150,000 to £125,140 from 6 April 2023.
- Changes to the Bank Corporation Tax Surcharge which are legislated to take effect from the same point will also go ahead - a rise of corporation tax to 25%.
- From April 2023, the rate of Diverted Profits Tax will increase from 25% to 31%.
- Temporarily, a 45% Electricity Generator Levy will be introduced from 1 January 2023.
- A reduced Bank Corporation Tax Surcharge – down to 3% from April 2023.

Growth: 'Energy, Infrastructure & Innovation'

- **Energy:** The reaffirmation of the UK's commitment to the COP26 pledges; confirmation of the Sizewell C nuclear power plant.
- **Infrastructure:** 'Round two' of the Levelling Up Fund worth another £1.7bn investment; confirmation that HS2 and the core of Northern Powerhouse Rail will go ahead; greater devolution through mayoral deals for Suffolk, Cornwall, Norfolk, and an area in the North-East.
- **Innovation:** The publication of the Government's response to Solvency II; the creation of a Digital Markets Unit to challenge monopolies and encourage competition; a review of retained EU law in key growth industries, including financial services.

Protection: People and Services

- The personal protection measures introduced to protect British citizens include: the protection of the pensions triple lock; a rise to the National Living Wage by 9.7%; and the extension of the Energy Price Guarantee (EPG) beyond April 2023- costing the Government £55bn.
- Regarding public services, the Chancellor announced a £8bn package to health and social care and an extra £2.3bn invested in the education system.

View from Labour

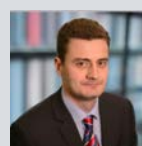


Nine weeks after the last fiscal event, the Chancellors might have changed, but the Shadow Chancellor remains the same, and she appeared her most confident yet. With Labour now sitting on an average 20-point-plus lead in the polls, Rachel Reeves' confident response to today's Autumn Statement aimed to stop any Tory resurgence in its tracks, and looked to solidify Labour's economic competence ratings with the public.

Reverting to the old Ronald Reagan mantra of asking if voters are better off under the Tories than they were at the last election, Reeves was trying to lay the ground for Labour attacks ahead of 2024. Blaming the doom loop of Tory austerity as she sees it, Reeves has been trying for months now to set out Labour's alternative plan for the economy. Having set the political weather by calling for a windfall tax, the Shadow Chancellor tried to repeat the trick by going after non-dom tax status – a less than subtle swipe at the Prime Minister's family and their tax affairs.

As we get closer to the next election the battle lines will become clearer, but Hunt's statement today has left Labour in a difficult position. With much of the fiscal consolidation due after 2024, Labour will be forced over the next 18 months to make clear whether they accept the current Tory spending plans – like they did in 1997 – or chart their own course, without the OBR forecasts and civil service support that comes with being in government, and therefore running the risk of incurring the wrath of the markets which will cost them economic credibility brownie points with voters.

On the other hand, there was no big giveaway in today's statement, meaning that unless the economic outlook massively improves, voters will continue to feel the pinch, and will likely turn on the government. As things stand, Labour will be going into 2023 and 2024 with a spring in their step. The Shadow Chancellor's assured performance at the Despatch Box today will have played a big part in setting the mood.



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Positive reactions



Nick Faith

*Board Member,
Onward*

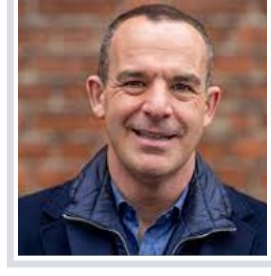
"There's a lot of good stuff in this speech: localising decision making, establishing more competitive clusters, regulatory reform in 5 key growth industries, increased spend in education, (and) focus on NHS efficiency and workforce."



Andrew Sentence

*Cambridge Econometrics &
Warwick Business School*

"Chancellor's Autumn Statement seems to strike the right balance - not too austere, + he has borrowed cleverly from Labour policies (eg higher taxes on energy companies). Need to look at the detail, but my initial response is favourable - in the context of difficult circumstances."



Martin Lewis

*Founder of Money Saving
Expert*

"I am very pleased that both benefits and the state pension are being increased by the 10.1% September inflation rate. It only happens from next April, and it will still be hard for many, but if it was less than this it would've been devastating."



Neil O'Brien MP

Minister for Public Health

"Watching Labour MPs deflating as Hunt plants flag in centre ground"



Rob Colvile

*Director, Centre for Policy
Studies*

"When it comes to the market reaction, no news is good news..."



Miles Celic

CEO, TheCityUK

"We welcome the clarity provided by the Chancellor in his Autumn Statement, particularly around reforms to Solvency II which will help to unlock investment from insurers for green energy and infrastructure projects across the UK."



Matthew Gillow

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Negative reactions



Torsten Bell

*Chief Executive,
Resolution Foundation*

"Jeremy Hunt has replaced Truss libertarianism with what Labour could have announced... Before commentators decide this is all very clever politics, they might want to think about the real world: energy bills rising to £3k in April; wages getting mullered (again); OBR forecasts show household incomes falling a staggering 7% this year and next."



Marcus Johns

*Research Fellow,
IPPR North*

"Maintaining capital spending in cash terms is a real terms cut to what is possible in infrastructure investment, especially over the long run. Standing still is making cuts – inflation is surging and especially high in construction #AutumnStatement."



Daniel Pryor

*Head of Research,
Adam Smith Institute*

"Today's statement was a return to managed decline... There were some positive steps on making support for vulnerable households more targets, but little in the way of genuine pro-growth reform."



Dame Angela Eagle MP

*Labour MP and member of the
Treasury Select Committee*

"A recession made by the incompetence of the three Tory PMs & four Chancellors we've had since the Summer coupled with the 12 years of Tory failure #AutumnStatement."



Isabel Oakeshott

*International Editor,
Talk TV*

"This is an extraordinarily powerful Budget response from @RachelReevesMP and will make very painful listening for Tory MPs. A catalogue of extremely uncomfortable home truths...."



Darren Jones MP

BEIS Committee Chair

"The Tories announce more funding for energy efficiency in...2025. It needs to happen now! This isn't an announcement on energy efficiency it's kicking the can down the road again. The audacity of making an 'announcement' about a further delay."



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REDEFINING COMMUNICATIONS TO DELIVER MEANINGFUL CHANGE	