Autumn Statement 17 November 2022

Headlines

- Statement delivers an economic consolidation of £55bn of tax rises and spending cuts.
- The UK is now in recession, GDP is forecast to shrink by 1.4% next year, before returning to growth in 2024.
- The OBR forecast that household income will fall by 7% over the next two years. This wipes out eight years of growth in real household disposable income.
- Pay is not expected to return to 2008 levels until 2027.
- Unemployment expected to rise to 4.9% from 3.6% today.
- Allowances and thresholds for income tax, national insurance and inheritance tax will be frozen for a further two years, going up from 2024 to April 2028.
- Increase in windfall tax on energy generators.
- Current HMG departmental budgets protected in cash terms up to 2024, with significant, unspecified spending cuts planned from 2024 onwards.
- Energy price guarantee for households will be extended for 12 months from 1 April 2023 with unit prices caped so average bills should not exceed £3000.
- £3.3bn extra for NHS and £2.7bn extra for adult social care in next two years.
- Patricia Hewitt a former Labour Secretary of State for Health, has been asked to lead a review of the efficiency of the NHS focusing on the work of ICBs.
- The national living wage will rise by 9.7% next year. From April 23, the hourly rate will be £10.42.
- Benefits and pensions will rise by 10.1% next year, in line with inflation in September.
- The Institute for Fiscal Studies summation of the budget: 'The British people 'just got a lot poorer'.'

Implications

The Autumn Statement did not mention charities, VCS or civil society at any point and whilst this is disappointing it is not unexpected. There is therefore no additional support for charities or VCS delivering front line cost of living crisis support, or indeed any other services. So, crisis support and business as usual will continue at least for the time being.

There is clearly no additional support for people or households already in poverty or destitution or struggling to pay energy bills this financial year, and although wages will rise this will not be in line with inflation for most people. This means that demand for emergency support such as foodbanks and warm spaces will continue to increase, as will the need for debt and other sources of advice, all putting pressure on an already stretched VCS sector. Costs associated with employment will also increase, not least through trying to increase wages to match cost of living rises. Recruiting volunteers will remain problematic, particularly if those who might previously have volunteered now need to find paid work.

This is also at a time when donations are likely to decline given the projected 7% reduction in household income in the next two years. The VCS will be facing a perfect storm of continuing significant cost rises, increasing demand and need, with reduced donations and value from grants or contracts.

Pro Bono Economics have produced a very helpful *Outlook for Charities* following the statement yesterday. There calculations suggest that the charity income could decline by £2.2bn by 2023-24.

> 'Income, meanwhile, will struggle as a result of people having less money in their pockets to donate, and donations will be devalued as a result of inflation. Taking into account rising costs, government spending plans and household finances, we have analysed the new data from the OBR and estimate that charity income will rise by around £1bn in cash terms during 2023-24 (1.6%), but if costs rise in line with broader inflation then the real value of that income for the charity sector will decline by £2.2bn over that time period. This is roughly a 4% real terms decline from the expected level for 2022/23.'

It is worth reading their charity budget briefing in full for more detail. https://www.probonoeconomics.com/winter-woes-the-outlook-for-charities-after-the-autumn-statement

The outlook for all VCS organisations remains uncertain at best. We already know that many local infrastructure organisations are facing reductions in funding from various sources or loosing some of it all together.

Details

Context

The aim of the Autumn Statement according to the Chancellor, was to 'tackle the cost of living crisis and rebuild our economy.' The Institute for Fiscal Studies translates this as an aim to reduce the GDP deficit over the next five years.

The OBR states that UK is now in recession, with GDP is forecast to shrink by 1.4% next year, before returning to growth in 2024. These are the forecasts:

- 2022: GDP growth of 4.2% compared with 3.8% growth predicted in March
- 2023: GDP falls by 1.4% compared with +1.8% growth predicted in March
- 2024: GDP rises by 1.3% compared with 2.1% growth predicted in March

This is a more optimistic forecast than the recent one from the Bank of England which suggested a recession would last at least two years. The Institute for Fiscal Studies suggest that the difference between these two forecasts is due to:

- the OBR expecting households with savings to spend more of them than planned either to cover core living costs or maintain a particular standard of living
- an increase in planned migration that will increase the size of the economy [expected to be around 227,000 people in 2024 – up from projected 125,000].

Borrowing will increase to £177bn this financial year, equivalent to 7.1% of GDP. Accompanied by significant tax rises this borrowing will help sustain current and planned spending up to 2024, but the budget will not be balanced, i.e., it will continue in deficit increasing from 2% of GDP in 2021 to 5.8% in 2022.

Long term borrowing [and more recent emergency quantitative easing] will mean an estimated £100bn per year spent on debt interest. In addition the Treasury is expected to pay £133bn to the Bank of England over the next few years to cover losses on the central bank's quantitative easing programme.

Taxation

The tax burden is projected to reach its highest level since WWII. Taxation as a share of GDP will rise from 33.1% of GDP in 2019-20 to 37.1% of GDP by 2027-28. In the same period total public spending also rises from 39.3% of GDP in 2019-20 to 43.45 of GDP in 2027-28.

The Resolution Foundation calculate that Government support this year and next will add 3.5% on average to household incomes. But even so, living standards are set for the largest fall on record this year. A real incomes per person fall 7% over the 2 years to 2023-24, wiping out the previous 8 years' growth.

The threshold for the top rate of income tax, 45%, will come down from £150,000 to £125,400. Allowances and thresholds for other income tax rates, national insurance and inheritance tax will be frozen for a further two years, pushing more people into paying tax at the basic level who might otherwise have avoided it.

The OBR state that fuel duty will rise by 23% in March 2023, adding £5.7bn to tax receipts next year and the first real terms increase since January 2011. This would increase the cost of fuel by around 12p per litre. However, various commentators have said that they think it unlikely that this rise will go ahead as it is an easy element to cut, despite the high tax take.

Electric vehicles will no longer be exempt from vehicle excise duty which will apply from April 2025.

From January 2023 until March 2028 the energy profits levy will increase from 25% to 35%. There will also be a temporary 45% levy on windfall profits for low carbon electricity generation.

Properties will be revalued for Business Rates but with compensation to soften the changes, retention of current exemptions, with an estimation that two-thirds will not pay more.

HMG have removed the requirement for councils to hold a referendum for rises above 2% so that the OBR expects Council Tax bills to rise by 5%. It is expected that this will breakdown to 3% increase in general council tax and 2% for the adult social care precept. The Treasury estimates that 95% of councils will raise rates by the maximum amount.

Benefits

The national living wage will rise by 9.7% from April 2023 to an hourly rate of £10.42.

Benefits and pensions will rise by 10.1% from April 2023, in line with inflation in September 2022. Although inflation was 11.1% in October 2022 with food inflation estimated to be around 14.7%.

In 2023-24 an additional Cost of Living Payment of £900 will be provided to households on means-tested benefits, of £300 to pensioner households, and of £150 to individuals on disability benefits. However, 2.3 million low-income households do not receive means-tested benefits and will not qualify for these lump-sum payments will be disproportionately affected.

Spending

The Energy Price Guarantee (EPG) will rise to £3,000 from April 2023, this equates to an average of £500 support for every household in 2023-24. The mechanism of a cap on the unit price of gas and electricity continues to mean that high use households will exceed the estimated maximum, such as those using electricity intensive medical equipment, people with reduced movement including the elderly. Whilst this is welcome it does have a disproportionate benefit for the highest income households that generally use the most electricity.

The NHS England budget will increase in the next two years by £3.3bn. Amanda Pritchard the NHS England chief executive, says this will allow the NHS to fulfil its key priorities. Equivalent sums will be made available for devolved administrations. The NHS will publish a workforce plan for the next five, 10 and 15 years.

An extra £1bn will be allocated to adult social care 2023-24, and £1.7bn 2024-25 with the aim to increase the numbers being discharged from hospital at the right time. This be via the Better Care Fund [£600m in 2023-34 and £1bn in 2024-25] with the rest going to local authorities through a ring fenced adult social care grant.

The Chancellor stated that the NHS needed reform to operate more efficiently. There will be a review of Integrated Care Boards. He has asked Patricia Hewitt, a former Labour Secretary of State for Health, to conduct a review into oversight of Integrated Care Boards in England and how they can best work with autonomy and accountability.

Next year and the year after there will be an extra £2.3bn for schools.

The building of new infrastructure such as roads, train lines and communities will be safeguarded by over £600bn in capital investment over the next 5 years. Sizewell C Nuclear power station to go ahead.

Further devolution deals are being announced. There will be an elected mayor in Suffolk, Cornwall, Norfolk, and an area in the north-east of England [presumably Darlington].

Successful projects will be announced later this year for the £1.7bn Round 2 of the Levelling Up Fund.

The government will refocus the Investment Zones programme to catalyse a limited number of the highest potential knowledge-intensive growth clusters, including through leveraging local research strengths – that is centred on existing universities. Existing expressions of interest will not be taken forward and the announcement promises wide consultation and maintenance of environmental standards.

Austerity 2.0

Although current HMG departmental budgets are protected in cash terms up to 2024, there are no increases in spending to cover inflationary erosion of budgets, and higher costs including of energy, meaning a real terms cut. The most painful measures have been delayed until after the next General Election with large projected cuts to Government spending in the three financial years 2025-26 to 2027-28. The majority of these expected cuts are unspecified and could come from 'provisional day to day spending totals (excluding aid)' and not returning overseas aid to 0.7% of GDP [as calculated by the Institute of Fiscal Studies].

Within the next two years there is likely to be large scale cuts to services provided by VCS organisations, charities and indeed local authorities, given that there is no new money in most sectors and inflation is continuing to erode the value of existing budgets.

The Resolution Foundation suggest that Public Sector Net Investment will be frozen in cash terms from 2025-26 representing a cut of £15bn, giving further information:

> 'A £22 billion reduction in day-to-day public services, combined with existing protections for health, defence and education, implies cuts to unprotected departments like transport, policing and local government of around 0.8 per cent per year between 2024-25 and 2027-28, taking real per capita spending back to the level they were at in 2014-15. Such cuts are likely to be undeliverable, requiring years of holding down public sector wages below those in the private sector.'

In other words, there is insufficient information currently to fully assess any projected cuts post 2024 and questions exist over whether they are actually deliverable, given the level of cuts from the first round of austerity.

Pay is not expected to return to 2008 levels until 2027 at the earliest.