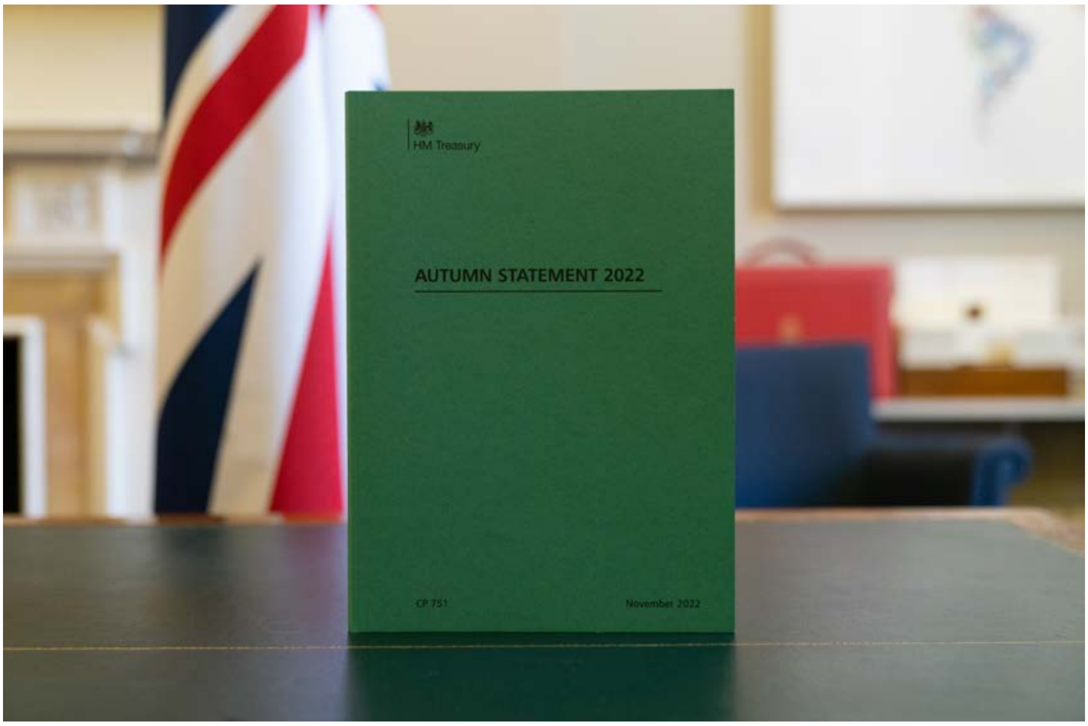

Autumn Statement: Hunt and Sunak set out plans to grip soaring inflation

Briefing by PoliMonitor

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Summary

Hunt delivered his Autumn Statement in the House of Commons just after 11:31am on Thursday 17th of November 2022. The statement sought to address the aftermath of previous Chancellor Kwasi Kwarteng's disastrous "mini-budget" on the 23rd of September, which was said to have exacerbated the ongoing cost of living crisis caused by spiralling inflation and soaring energy costs. Describing it as the "enemy that we need to face down", Prime Minister Rishi Sunak promised that this Autumn Statement from his Chancellor would help "grip" inflation, which he argued was "eating into people's living standards".

Hunt, who was appointed Chancellor by Liz Truss after Kwarteng was removed from office, had already reversed almost the entirety of Kwarteng's mini-budget but, having been retained by Truss' successor Rishi Sunak, delayed a further statement on a medium-term fiscal plan scheduled by Kwarteng for the 31st of October so as to widen its scope to be a full Autumn Statement. The Office for Budget Responsibility (OBR) published its latest economic and fiscal outlook alongside Hunt's statement, which confirmed that the UK had entered a recession from the third quarter of 2022, a point gloomily raised a number of times by the Chancellor during his statement as one of the reasons for his many interventions. However, the OBR did give some buoyancy to the Chancellor's measures by stating that the Government's intervention would dampen the impact of this recession. The OBR's overview of this economic and fiscal outlook can be found **here**.

The statement lasted just under an hour, more than double that of the Kwarteng mini-budget of 25 minutes.

The following report addresses the key contents of the Chancellor's Autumn Statement, and the initial reaction and fallout of his proposals from both the Opposition and wider British industry.

Autumn Statement 2022: Hunt attempts to tackle inflation by prioritising stability, growth and public services

> **“Today we deliver a plan to tackle the cost of living crisis and rebuild our economy. Our priorities are stability, growth and public services… today we respond to an international crisis with British values. We are honest about the challenges and we are fair in our solutions… our plan leads to a shallower downturn, lower energy bills, higher growth and a stronger NHS and education system.”**

- **Jeremy Hunt, Chancellor of the Exchequer**

Income, Inheritance & NI Tax thresholds frozen

Turning first to his decisions on tax, Hunt emphasised how he has attempted to be fair by following two broad principles - one, to ask those with more to contribute more, and secondly, to avoid tax rises that damage growth. Admitting that his decisions did amount to a ‘substantial tax increase’, Hunt stated that the headline rates of taxation were not being raised, and that tax as a percentage of GDP would only increase by 1% over the next 5 years.

The first of these decisions was to reduce the threshold at which employees pay the 45p rate of income tax from £150,000 to £125,140. This means that someone earning £150,000 or more will pay just over £1,200 more each year. ‘Difficult decisions’ on tax free allowances were next in the Chancellor’s statement, in which Hunt announced that they are maintaining at current levels the income tax personal allowance higher rate threshold, national insurance thresholds and inheritance tax thresholds for 2 years up to 2028.

Cuts to Capital Gains and Dividend Allowance

Turning to 'unearned income' the Chancellor also announced that the dividend allowance will also be cut from £2,000 to £1,000 next year, and then to £500 from April 2024. Additionally, as was widely reported, the annual exempt amount for Capital Gains Tax will be cut from £12,300 to £6,000 next year, and then £3,000 from April 2024. Hunt sought to emphasise that these changes left the UK with more generous allowances than countries like Germany, Ireland, France and Canada.

Vehicle Excise Duty for electric vehicles

Owing to the fact that the OBR forecasts that half of all new vehicles will be electric by 2025, the Chancellor also announced measures to make the 'motoring tax system fairer'. From 2025, electric vehicles will not be exempt from Vehicle Excise Duty (VED). Company car tax rates will remain lower for electric vehicles, and rate increases will be limited to 1% a year for 3 years from 2025.

Mini-budget stamp duty cuts kept… for now

With the OBR expecting housing activity to slow over the next two years, the Chancellor announced that the stamp duty cuts announced in Kwarteng's mini-budget will be kept in place, but only until 31 March 2025, upon which the measures will be sunset, which, Hunt claimed, will 'create an incentive to support the housing market and the jobs associated with it, by boosting transaction during the period that the economy most needs it.'

Employment allowance retained at new higher level

The employment allowance will be retained at its new higher level of £5,000, meaning 40% of all businesses in the UK will pay no NICS at all. This will be maintained at this level until March 2026. Turning to the VAT threshold, owing to the fact that it is already twice as high as the EU and OECD averages, the Chancellor announced that he would maintain it at this level until March 2026.

Praising the Prime Minister for successfully negotiating a ‘landmark international tax deal’, Hunt announced that this will ensure multinational corporations, including big tech companies, would pay the right tax in the countries that they operate. These reforms will be implemented by the Chancellor to ensure that the UK gets its fair share. Alongside further measures to tackle tax avoidance and evasion, the Chancellor claimed that this will raise an additional £2.8 billion by 2027-28. In order to tackle reports of abuse and fraud, R&D tax relief for SMEs was also hit by the Chancellor’s pen. As such the deduction rate for the SME scheme is to be cut to 86% and the credit rate cut to 10%, however the rate of the separate R&D expenditure credit will be increased from 13% to 20%. These measures, according to the OBR, will have no detrimental impact on the level of R&D investment in the economy.

Windfall tax gives Labour a clear victory

Murmurs from the benches opposite increased in volume as the Chancellor turned to windfall taxes, with the Chancellor acknowledging the excitement from the Labour frontbench upon his declaration that he had ‘no objection to windfall taxes’ - increases of which are a policy long-advocated for by the Opposition. However, he emphasised that his support of windfall taxes were only on the basis that they were genuinely about windfall profits, caused by unexpected increases in energy prices. Further, he stressed the need for any such windfall tax to be temporary, not to deter investment, and to understand the cyclical nature of energy businesses.

As such, the Chancellor announced that from January 1st until March 28th, the energy profits levy was to be increased from 25% to 35%, in what BBC Business Editor Simon Jack described as a 'huge increase'. Low carbon electricity generation has also benefited from windfall profits owing to the structure of the UK energy market. As such, from January 1st a temporary 45% levy on electricity generators will be introduced. These measures will raise £14bn next year.

Revaluation of business properties from 2023

In order to ensure the important principle that ‘bills should accurately reflect market values’, the Chancellor announced a revaluation of business properties from April 2023. In order to soften the blow on businesses, the Chancellor announced a £14bn tax cut over the next 5 years, meaning that nearly two thirds of properties will not pay a penny more next year, and claimed that thousands of pubs, small chains and high street shops will benefit. Answering calls from the CBI, the BRC, the FSB and others, the Chancellor announced that this will also include a new Government-funded transitional relief scheme, which he claimed will benefit around 700,000 businesses.

Hunt announces DWP employment review

Highlighting his concern in the sharp increase of ‘economically inactive working age adults’, totalling around 630,000 people since the start of the pandemic, Hunt announced that the Prime Minister had asked Work and Pensions Secretary Mel Stride to do a thorough review of issues holding back workforce participation, which is to conclude early in the New Year. He also raised his commitment to help people already in work to raise their incomes, progress in work and become financially independent. To do so, the Government, at the Chancellor’s request, will ask ‘over 600,000 more people on Universal Credit to meet with a work coach so that they can get the support they need to increase their hours or earnings’.

Additionally, the Chancellor announced his decision to move back the managed transition of people from Employment and Support Allowance onto Universal Credit to 2028, alongside an additional investment of £280 million into DWP to crack down on benefit fraud and error over the next two years.

He also announced that the Government review of the state pension age will be published in early 2023.

Defence spending kept at 2%, overseas aid languishes

Owing to the situation in Ukraine, the Chancellor declared that defence spending should be increased, but only after a revision and update of the Integrated Review, which was written before Russia’s invasion of Ukraine. Hunt stated however that he and the Prime Minister were both in agreement that the UK should maintain its defence spending target to at least 2% of UK GDP to be consistent with its NATO commitment.

Turning to overseas aid, owing to the OBR’s forecast of a significant shock to public finances, Hunt announced that it would not be possible for the UK to return to the 0.75% of GDP spending target until the ‘fiscal situation allows’. However, the Chancellor emphasised the Government's commitment to that target, and talked of his pride that UK overseas aid has helped to save thousands of lives around the world.

Skills, skills, skills - additional £2.3bn for schools

The Chancellor made clear his concerns that 'not all school leavers get the skills they need for a modern economy'. Hunt praised the fact that the Education Secretary, Gillian Keegan, left school at 16 to become an apprentice, emphasising her understanding of 'why good skills matter'. In order to ensure that every young person leaves the education system with skills comparable to school leavers in other countries such as Japan, Germany and Switzerland, the Chancellor announced the appointment of Sir Michael Barber to advise him and the Education Secretary on the implementation of the Government's skills reform programme.

The Chancellor sought to emphasise the importance of education by announcing that despite the economic crisis, he aspired to ensure that improvement in school standards for every single child continues to accelerate. In order to do so, Hunt announced additional funding for schools over the next two years, with the Government investing an extra £2.3bn over this period.

Huge increase in NHS spending; Dilnot delayed

As a former Health Secretary himself, Hunt made sure to emphasise his commitment as Chancellor to the continued support of hard working frontline workers in the NHS. More in his comfort zone here, Hunt spoke with particular emphasis and sincerity as he seemed to transform briefly into the Health Secretary once more. Addressing what he saw as the biggest issue, workforce shortages, the Chancellor announced that the Department for Health and Social Care and the NHS will publish an independently verified plan for the number of doctors, nurses and other professionals that will be needed in the next 5, 10 and 15 years, 'taking full account of the need for better retention and productivity improvements'.

Leaning once more into his health expertise, Hunt then turned to social care, stating that he had 'also listened to extensive representations about the challenges facing the social care sector'. To the Chancellor, these challenges were clear - first, the increasing number of over eighties putting pressure on social care services, and two, the inability for local authorities to deliver at-pace the Dilnot reforms. To tackle this, the Chancellor announced that he will delay the implementation of these reforms for two years, allocating funding to allow local authorities to provide more care packages. In order to 'help free up some of the thirteen and a half thousand hospital beds that are occupied by those who should be at home', Hunt also announced the allocation of adult social care additional grant funding of £1bn next year and £1.7bn the year after.

This is a huge increase. Amounting to up to £2bn next year and £4.7bn the year after, when combined with savings from delaying the Dilnot reforms and more council tax flexibilities, and will allow for the delivery of an estimated 200,000 more care packages over the next two years. This is, according to Hunt, 'the biggest increase in funding under any Government of any colour in history' for social care.

But Hunt sought to emphasise that the NHS must follow other public services in tackling waste and inefficiency, stating that 'we want Scandinavian quality alongside Singaporean efficiency'. In order to ensure better outcomes and value for money, Hunt announced that he has asked former Health Secretary and Chair of the Norfolk and Waverley integrated care system Patricia Hewitt to help advise him and the current Health Secretary on how to make sure local NHS bodies and integrated care boards operate efficiently, with 'appropriate autonomy and accountability'.

Now in his stride, the Chancellor went even further, announcing an increase in the NHS budget in each of the next two years of £3.3bn. The Barnett Formula will apply here, providing an extra £1.5bn for the Scottish Government, £1.2bn for the Welsh Government and £650 million for the Northern Ireland Executive.

Hunt confirms Sizewell C and kickstarts efficiency drive

In order to address resilience for the future, Hunt emphasised the need to have energy independence alongside energy efficiency. In order to do this, the Chancellor announced, finally, that the Government would proceed with the long-awaited Sizewell C nuclear power station, with contracts for initial investments signed in the coming weeks. The first state backing for a nuclear project in over 30 years, Hunt praised this move of his as the biggest step in the UK's journey to energy independence.

Alongside this, Hunt also confirmed the delivery of Northern Powerhouse Rail, HS2 to Manchester, East-West Rail and Gigabit broadband rollout, funded with over £600 million of investment over the next 5 years. Hunt also announced the creation of a much-rumoured energy efficiency taskforce, stating that 'a modern economy needs secure, clean and affordable energy'.

The Chancellor also used this section of his statement to reassert the Government's commitment to UK innovation and science, announcing that the Government will be publishing its decision on Solvency II, which 'will unlock tens of billions of pounds of investment for our growth enhancing industries', with Hunt raising some eyebrows when he declared his aim of turning the United Kingdom into 'the world's next Silicon Valley'.

The Pensions Triple Lock(ed)

The previous Prime Minister Liz Truss had promised that pensioners would see their state pension rise in line with inflation next April, maintaining the “triple lock” on state pensions. With the desperation to reduce costs, it was speculated that there may be little choice but for the triple lock to be scrapped or suspended again just as it had been done in April 2022 following an anomalous rise in earnings. However, days before the Autumn Statement the Prime Minister hinted that the triple lock would be renewed. The Chancellor confirmed this in his statement, announcing that the Pensions Triple Lock and Pension Credit will be protected, and rise in April 2023 by 10.1%. This means that the full amount of the new state pension will rise above £10,000 for the first time next year.

Other measures

Working age benefits will rise by the rate of inflation at 10.1%

Cost of living payments including £150 for those on disability benefits

Suffolk, Norfolk and Cornwall to get directly elected mayors in new devolution deal

National Living Wage increased to £10.42

Opposition response

Following the Chancellor's Statement, Labour Shadow Chancellor Rachel Reeves gave her response to the Chancellor's announcements, finishing her opening line with the question she claimed people will be asking themselves at the next election: "Are me and my family better off with the Conservative Government?" - the answer from her colleagues was "no".

The Opposition have made it clear they wanted to see how the Government planned to support the most vulnerable in society during the cost of living crisis. But instead, Reeves said, working people are dealing with the same "economic failure: growth dismal, investments down and wages squeezed, public services crumbling".

She challenged the Chancellor's claim that the current situation of the country is solely due to global factors, seeking to pin the crisis on the Conservative Party by linking it back to Kwasi Kwarteng's 'mini-budget' in September. She highlighted that growth under the Conservatives has been an average of 1.4 percent, whilst under the previous Labour Government had been on average 2.1 percent. Reeves indirectly accused the Chancellor of cherry-picking his statistics, pulling out one of her own by highlighting the fact that Britain is the only country that is still poorer than they were before the pandemic among the members of the G7. Countering Hunt's claims, she declared that the current Prime Minister and his Government had given up on growth all together.

"Now I must report that in the last hour, the Conservatives have picked the pockets of purses and wallets of the entire country."

- Rachel Reeves, Shadow Chancellor of the Exchequer

Reeves challenged the Chancellor's deployment of taxes and described it as the 'pickpocketing' of the country. Pickpocketing tactics, she claimed, were carried out by those who don't "easily stand out in the crowd", and may act "over friendly" in spite of their nefarious intentions. She questioned why the Chancellor had not clamped down on the non-doms and private equity firms who benefit from loopholes in the system.

Despite seemingly agreeing to Labour's calls for a windfall tax on energy giants, Reeves claimed the Chancellor had let energy giants "off the hook once again", stating much more should have been done and has been blocked by the Government, including investments in onshore wind and solar, which she felt hadn't been achieved in the Chancellor's statement. As well as home insulation, which the Opposition had called for more than 12 months ago, and which they claimed could have cut energy bills by £1,000 'not just for one year but for every year to come', Reeves also stated that "clean power is the right solution to the energy price crisis" and that the Government had failed to protect the public from future shocks.

A Labour Government, Reeves argued, would have a long term plan to fix the economy through the use of the talent and efforts of ordinary working people. She stated that a Labour Government would ensure that Britain is the best place to start and grow a business, and that a Labour Government would "properly" fix business rates. She also reiterated Labour's Green prosperity plan, which she claimed would create new jobs and a more dynamic economy through "home grown renewables, green hydrogen, [and] in carbon capture and storage".

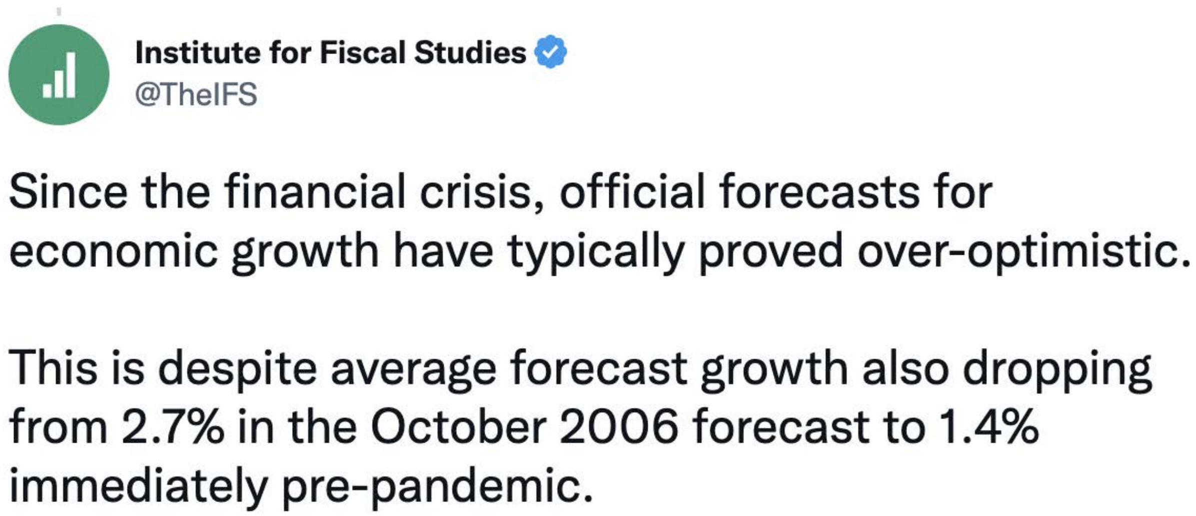
Wrapping up her response, Reeves stated that it is clear that the Government does not care about public services, or indeed the contributions of those working in them, arguing that it's time for delivery now, not the time for more reviews and audits, questioning the efficacy of yet more workforce reviews for the NHS or even more hand-wringing around schools policy. In closing, Reeves highlighted what she felt were the true 'achievements' of the Conservative Government - crashing the UK's economy, giving up on growth and sending inflation through the roof:

> **"They have failed to tackle the cost of living crisis. They have failed to show how they will fix our public services. They have failed to show how they will deliver growth and they have no plan for the future of our country. And everything we have heard today, and after twelve long years of Tory failure, the conclusion that we must come to is that Britain can no longer afford a Conservative government."**

Industry response

Paul Johnson, Director of the **IFS**, described the statement by the Chancellor as being a “less painful statement than people were expecting”. In a video summary, he stated that most of the difficult decisions have been deferred, such as the lack of cuts in the short term for public services.

The video can be viewed [here](#).



Institute for Fiscal Studies
@TheIFS

Since the financial crisis, official forecasts for economic growth have typically proved over-optimistic.

This is despite average forecast growth also dropping from 2.7% in the October 2006 forecast to 1.4% immediately pre-pandemic.

Rain Newton-Smith, the **CBI**’s Chief Economist, said:

“The test for the Autumn Statement was to deliver stability at the same time as unveiling a clear plan for growth. The Chancellor deserves credit for delivering stability, as well as protecting the most vulnerable, but businesses will think there’s more to be done on growth.”

The British Retail Consortium
@the_brc

💼In his #AutumnStatement, @hmtreasury @jeremy_hunt made an essential move to reform business rates by scrapping downwards phasing of transitional relief, as called for by the BRC.

Without reform, the BRC calculated it would cost retailers £1bn from 2023-26. #Budget2022

Helen Dickinson from the **BRC** meanwhile gave the Chancellor a positive response to his Autumn Statement, saying that “the announcements today show the government has heard the concerns of the retail industry."

Martin McTague of the **FSB**, however, was scathing in his criticism:

Please contact the PoliMonitor team at info@polimonitor.com for more information

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