Resolution Foundation
BRIEFING

A pre-election Statement

Putting the Autumn Statement 2023 in context

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Summary

Jeremy Hunt yesterday got his pre-election giveaways in early, with an Autumn Statement offering tax cuts today, at the price of implausible spending cuts tomorrow. There were well-targeted specifics, addressing problems such as our tax system's bias against working-age earnings or the benefit system's failure to keep pace with fast-rising rents. But these were juxtaposed with far less well-designed big picture fiscal choices, as tax-cutting rhetoric clashed with tax-rising reality, and positive steps to encourage business investment combined with a growth-sapping hit to public investment. Ultimately this reflects the pressures not only of an upcoming election, but of governing a sicker, older, slower-growing Britain, amid an era of far higher interest rates.

The economic past looks better than expected, the economic future looks… grim

The British economy recovered more strongly from the pandemic, and proved more resilient to high energy prices, than the Office for Budget Responsibility (OBR) thought back in March. But the future looks less rosy, with an economic slowdown delayed rather than cancelled: growth in 2024 is now forecast to be 0.7 per cent, more than halved from the 1.8 per cent forecast in March, giving the weakest growth backdrop to a general election in over three decades. The Bank of England's view is that even this is far too optimistic. And a better starting point, but weaker outlook, combines to leave the prospects for long-term real GDP little changed.

Higher-than-expected inflation is the big news

In contrast, nominal GDP is up significantly, and is now expected to be 5.3 per cent higher in 2027-28 above that previously thought, reflecting higher and more stubborn inflation. Consumer prices in 2027-28 are set to be 7 per cent higher than thought in March. Wages have also surprised on the upside, with nominal wage growth of 8.2 per cent in Q2 2023 – a full 2 percentage points higher than the OBR forecast in the spring. This has driven the welcome announcement of a bumper minimum wage rise to £11.44 next April, the third largest increase in the wage floor's history.

But although nominal wage growth has been robust, this simply reflects it trying to keep pace with higher-than-expected inflation. In fact, real average weekly earnings are now set to remain below their 2008 level until 2028 – a full two decades of pay stagnation.

The improved fiscal outlook has been spent

Higher prices and wages mean higher tax receipts, up a massive £48 billion a year on average over the forecast period. This is the largest upward revision to tax revenues since the OBR was founded, more than offsetting the higher welfare and debt-interest costs that higher inflation also brings. As a result, the OBR handed Jeremy Hunt a nearly £90 billion lower cumulative borrowing windfall by 2027-28. The Chancellor spent almost all of this (96 per cent) delivering a package of tax cuts.

Although he boasted of doubling fiscal headroom against the chosen fiscal rule of debt falling in five years' time, the Chancellor's decisions leave him with just £13 billion of wriggle room, half the average headroom maintained by Chancellors since 2010. This is risky, fiscally (falling debt remains something happening only in a far-away future of which we know nothing), and politically (a further fiscal event remains before the next election that could easily see this fiscal space wiped out, something that would require tax rises or spending cuts at a difficult point in the political cycle).

Despite the substantial tax cuts announced, taxes are going up not down

The Chancellor's fiscal gamble is the price for announcing the biggest single package of tax cuts since 1988, totalling £20 billion in 2028-29 and roughly equally split between two large measures. A welcome move to make full expensing of plant and machinery investment permanent, estimated (conservatively in our view) by the OBR to boost GDP by 0.2 per cent in the long run, was combined with more election-friendly cuts to National Insurance (NI). The latter, made up of a 2p cut in the main employee NI rate, alongside a 1p cut and abolition of Class 2 NI for self-employed workers, will see 29 million workers gain by an average of £330 next year. It also represents a welcome reduction in the tax incentive for higher earners to be self-employed, and in the higher-tax burden faced by a worker under the state pension age compared to an identical one aged over. But it is not progressive, with around 80 per cent of the gains going to the top half of the population.

Personal taxes generally are going up, not down, with the big tax cuts announced in the Autumn Statement (totalling £10 billion) dwarfed by previously announced tax rises (the freezing of NI and income tax thresholds for six years is now expected to raise £45 billion). The combined effect is an average tax rise of £1,200 per household, with almost all those liable for Income Tax or National Insurance paying higher taxes overall.

More generally, the Autumn Statement's £20 billion of tax cuts compare to around £90 billion of tax rises (including higher Corporation Tax) already announced this Parliament. Despite the tax cutting rhetoric, then, the reality is that the tax burden is rising, with tax receipts as a share of the economy set to reach 37.7 per cent in 2028-29, the highest level in 80 years. This means a rise of 4.5 per cent of GDP between 2019-20 and 2028-29, the equivalent of an extra £4,300 for every household.

Tax cuts rest on the fiscal fiction that inflation raises tax revenues, but not spending on public services

How has the Chancellor combined substantial tax cuts with meeting his fiscal rules, despite no real improvement to the economy? With a fiscal fiction: that higher inflation pushes up tax receipts, but not public service spending. In fact, the £20 billion cost of tax cuts in 2027-28 almost exactly matches the real-terms reduction in public service spending (£19 billion) in that year relative to that expected back in March.

When combined with relative protections for the likes of health and defence, this leaves many public services facing implausible spending cuts in the future. Unprotected departments face reductions of 14 per cent in their real per-person day-to-day spending between 2022-23 and 2027-28. No-one who has used a British public service in the recent past will think these cuts can be delivered in the likes of the courts or local government.

If anything, inflation-induced cuts to capital spending are even deeper than to current spending, reflecting a decision to set investment budgets in cash terms that are rapidly eroded by higher inflation. This is not as implausible as the cuts to day-to-day spending, but is deeply undesirable. The need to raise public sector net investment as a share GDP was, until recently, a matter of cross-party consensus, reflecting the visible legacy of decades of underinvestment and new pressures from the net zero transition. But capital investment is now set to decline as a share of GDP by one-third between 2023-24 and 2028-29, when it will reach just 1.8 percent, below even the (widely regarded as inadequate) 2010s average of 2.1 percent. That decline is equivalent to a £20 billion annual reduction in investment. It is hard to think of a more anti-growth policy choice.

The Chancellor combined pre-election support for renters, with a post-election takeaway for some with poor health

Although investment spending has been allowed to shrink with higher inflation, the Chancellor defied some expectations by confirming that working-age benefits will rise in line with the usual measure of inflation next April, and that the state pension will rise in line with the triple lock. This will help to protect the living standards of households already hit hard by higher-than-average price rises for essentials, and the loss of the Cost of Living Payments next year. And the Chancellor has gone further, by re-pegging housing support (Local Housing Allowance) to the 30th percentile of local rents in 2024-25. This will benefit around 1.6 million households that rent, with the biggest boosts going to those living in areas where rents have soared since 2020, including Inner South London (+£50 a week), Inner Greater Manchester (+£41) and Bristol (+£40).

But if renters will gain before the next election, some low-income claimants with ill health will lose out afterwards. The Chancellor announced a broad package of measures to address the fact that spending on working-age health and disability benefits is set to rise to £71 billion in 2028-29, a 51 per cent real increase on 2022-23. This included carrots (such as investment in health support) and sticks (a tougher benefits system). The latter includes changes to the Work Capability Assessment that, by 2028-29, will see 371,000 fewer people (those with mobility challenges or moderate mental ill health) quality for extra support that is worth £4,680 per year.

Despite the Autumn Statement's pre-election giveaways, the outlook for living standards remains bleak

Overall, the measures in the Autumn Statement, largely pre-election giveaways, will boost household incomes across the distribution, with the typical household £500 better off in 2027-28. The richest households will gain most, with the top fifth benefiting to the tune of £1,000 a year on average, five times the gains for the bottom fifth.

But while the top gain most from the Autumn Statement, they also bear the brunt of decisions over the Parliament as a whole, largely reflecting the big increase in personal taxes. Taking all tax and benefit measures announced since 2019 together, we find that the richest fifth of households lose an average of £1,100 a year, while the poorest 20 per cent gain £700.

The biggest inflation shock in four decades, and taxes rising to their highest level in eight decades, means the outlook for living standards remains dire. Real household disposable income per person is expected to fall by 1.5 per cent in 2024 – presenting a bleak economic backdrop to the 2024 election. The last time RHDI fell in an election year was 50 years ago, in 1974. This helps drive a new grim record on living standards: this Parliament is on track to be the first in which real household disposable incomes actually fall (by 3.1 per cent from December 2019 to January 2025): households will, on average, be £1,900 poorer at the end of this Parliament than at its start.

The challenges facing Britain in the 2020s might make things difficult for policy makers, wrestling as they must with the testing interaction between the economic and political cycle. But those challenges have also made things far more difficult for households: this is what a living standards disaster looks like.

The Autumn Statement has made the Government's election pitch clear

Jeremy Hunt unveiled a much bigger-than-expected tax-cutting package in his Autumn Statement, along with promises of more to come. Having been handed an OBR forecast that showed a cumulative improvement in borrowing of nearly £90 billion, the Chancellor has chosen to spend almost all of it, mainly on permanent tax giveaways. But this is a gamble. Not only do the giveaways in the Autumn Statement leave the Chancellor with very low levels of headroom against future shocks, they are only delivered on the back of pencilling-in implausible spending plans for the years after the coming election.

In this briefing note we put the decisions in the Autumn Statement in context, discussing how the economic outlook has changed, what that means for the public finances, and how the policy decisions taken will affect living standards in both the short and the medium term.

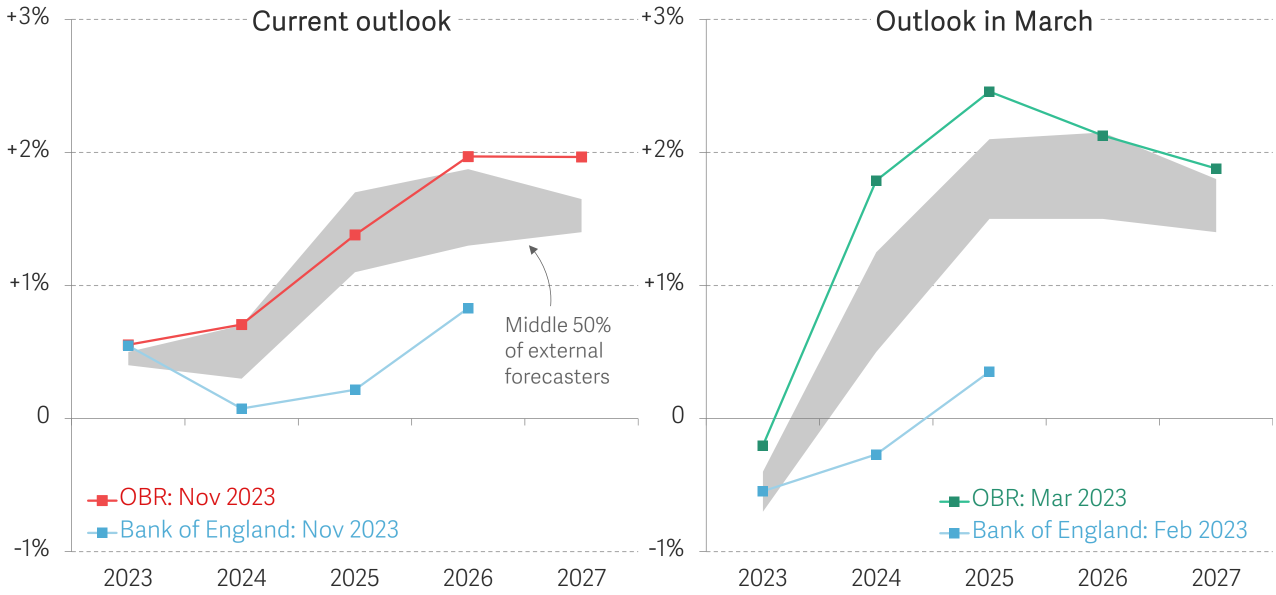
Although the economy has fared better than expected this year, the outlook has deteriorated

Data revisions means that we now know that the UK economy saw a faster initial recovery from the pandemic, and has proved more resilient in 2023, than feared at the time of the Budget in March. As shown in Figure 1, the OBR expects the economy to grow by 0.6 per cent this year, better than the expected 0.2 per cent fall that it forecast in the spring.[1] This has also translated into a stronger labour market, with the 16+ employment rate 0.4 percentage points higher than expected in March (at 60.9 per cent). But from next year, the outlook for GDP growth is materially weaker. The OBR's near-term forecast suggests the economy is now set to slow into next year, with 2024 growth marked down by 1.1 percentage points to 0.7 per cent, the weakest real GDP growth in an election year for more than 30 years. As shown in Figure 1, this is much more in line with a range of published forecasts, although is still much stronger than the Bank of England.

1 Stronger growth this year, combined with data revisions (in which the ONS raised their estimate of the size of the economy by 2 per cent), has left the level of GDP higher at the start of the OBR's forecast than in March.

FIGURE 1: **The OBR has shifted slow economic growth from 2023 into 2024**

Forecasts for real GDP growth, in November 2023 (left panel) and March 2023 (right panel): UK



Note: External forecasters are those collated by HM Treasury. In 2023 and 2024, the swathes shown only include forecasts made within three months of the relevant forecast iteration. For later years, swathes include all forecasts (for these years using external forecasts from February, as medium-term forecasts were not published in HM Treasury's March publication).
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March 2023 and November 2023; HM Treasury, Forecasts for the UK Economy, February 2023 and November 2023; Bank of England, Monetary Policy Reports, March and November 2023.

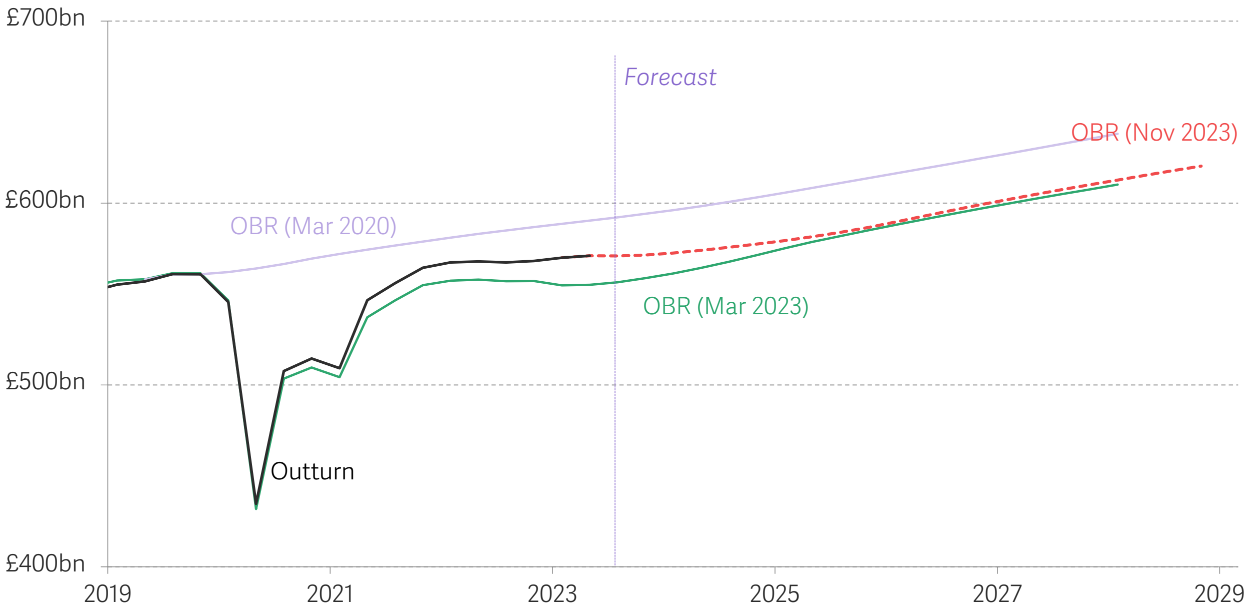
Looking ahead, the OBR has also downgraded its forecast for longer-term growth, with less 'rebound' from the pandemic still to come and a more pessimistic view on the UK's prospects for sustainable growth. This brings the OBR closer to the consensus of external forecasters and leaves the forecast level of GDP from the end of 2025 onwards little changed from March, as shown in Figure 2.

The OBR has judged that downward revisions to long-term productivity growth and the UK's capital stock have outweighed a boost to potential output from measures announced in the Autumn Statement (see Box 1 for a detailed discussion of these measures). The extent to which the OBR has revised up its view of long-run growth in response to announcements in the Autumn Statement is larger than has been the case when governments have announced 'pro-growth' policies in recent years, but the boost is still relatively small in absolute terms, adding 0.3 per cent to the level of real GDP by the end of the forecast.[2]

2 In March 2023, the OBR uprated the level of GDP at the end of its forecast by around 0.2 per cent as a result of measures announced in the Spring Budget. In other fiscal events of recent years, the OBR has tended to assume a negligible impact of announcements on the level of GDP at the end of the forecast period.

FIGURE 2: **Real GDP has a higher starting point than in March, but ends up at around the same level**

Quarterly real GDP, outturn and forecasts: UK



NOTES: All measures are rebased and re-referenced to 2019.
SOURCE: OBR, Economic and Fiscal Outlook, various.

On a per capita basis, the level of growth expected in 2028-29 (1.3 per cent) is more than a percentage point below average growth in the 15 years before the financial crisis (2.5 per cent). This translates to GDP per capita rising by £570 a year, compared to just more than £1,000 per year if the economy grew at the pre-financial crisis average.[3] This is also bad news for Chancellor, as slower growth in the final year of the forecast makes it harder to hit his fiscal rule of debt falling relative to GDP.

BOX 1: The Chancellor has announced some good growth-boosting measures, but has also cut public investment

Productivity in the UK is 18 per cent below the average of the US, France and Germany, and grew at less than half the rate of the OECD average between the financial crisis and the pandemic.[4] Partly this reflects the UK's historically low rates of investment: businesses in France, Germany and the US invest an average of 20 per cent more than in the UK.[5] The average OECD advanced economy had public investment worth nearly 50 per cent more than the UK's

3 These figures are expressed in 2023-24 prices.
4 Source: OECD and RF calculations.
5 J Oliveira-Cunha et al., Business time: How ready are UK firms for the decisive decade?, Resolution Foundation, November 2021.

2.5 per cent rate.[6] So the Government's focus on growth and investment is welcome. In the Autumn Statement, the Chancellor announced a string of policy measures with these objectives in mind, some of which the OBR has reasonably judged will support growth. But, as we discuss later in this box, cuts to public investment have the opposite effect.

The most high-profile growth boosting announcement has been the Government making permanent the previously temporary 'full expensing' of qualifying business investment. Firms will be able to deduct 100 per cent of the cost of plant and machinery investment from their taxable profits, rather than deducting a percentage over several years as they depreciate. Making the reform permanent is welcome and important because it is much more likely to boost the long-run investment that firms want to do, rather than just bringing investments forward in time to before the allowances expire (indeed, the OBR had previously said that the temporary policy would have had no impact on the UK's long-run capital stock).

The OBR expects this measure to cost £9 billion in 2027-28. But the long-run cost is likely to be much lower, as the measure just brings forward depreciation allowances that firms would have claimed eventually.[7] Moreover, the OBR expects this measure to boost long-run GDP by 0.2 per cent, enough to raise revenues by around £2 billion a year. Our previous work suggests that this a conservative estimate – the ultimate growth impact could be several times larger, and even big enough for the measure to more than pay for itself in the long run.[8]

However, one drawback of this policy is that only around 30-40 per cent of business investment qualifies as 'plant and machinery', and so is eligible for the full deduction. This limits the full impact of the change, and also introduces a distortion by making the expensed assets artificially cheaper relative to other forms of investment.

Allowing the full expensing of capital allowances is also good news for the UK's net zero transition, especially in light of the lengthy time periods between project inception and spades hitting the ground. This is particularly welcome in light of headwinds coming from higher borrowing costs and supply-chain issues, which have a particularly stark impact on investment with high capital costs but low or zero

6 F Odamtten & J Smith, Cutting the cuts: How the public sector can play its part in ending the UK's low-investment rut, Resolution Foundation, March 2023.
7 S Adam & H Miller, Full expensing and the corporation tax base, Institute for Fiscal Studies, October 2023.
8 P Brandily et al., Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth, Resolution Foundation, June 2023.

running costs,[9] and (prior to the making permanent of full expensing), saw the UK's attractiveness as a place to invest fall during 2023.[10]

The Government also announced policies to boost labour supply and employment. The OBR expects the 2 percentage point cut in National Insurance rates to boost long-run GDP by about as much as full expensing does – around 0.2 per cent – by encouraging people to work 0.3 per cent more hours in total. Most of this is longer hours by people currently working, with a smaller boost from people moving into employment. This does not seem to be a conservative estimate when compared to the broad range in the literature.[11] It is also noteworthy that the OBR had previously not attempted to allow for the rise in average tax rates due to the freeze in personal tax thresholds to reduce labour supply.[12]

As part of a wider plan to 'Get Great Britain building again', the Chancellor also outlined reforms to cut delays and costs in the planning system. The cost of planning applications increased five-fold between 1990 and 2023,[13] and the 40 per cent increase in projects going through the Nationally Significant Infrastructure Project (NSIP) system since 2020 has led to considerable backlogs.[14] These reforms are particularly concentrated on clean energy, allowing developers to pay local authorities to expedite projects and giving ministers a more hands-on role to push through permissions for key projects – with the end result an anticipated average increase in investment of £10 billion per year over the next decade.[15] However, these moves come with potentially unfavourable distributional consequences – boosting investment that is largely paid for through standing charges on energy bills will disproportionately impact poorer families, while compensating households near new infrastructure projects (by up to £10,000 over a decade) will result in the arbitrary transfer of wealth from urban to selected rural areas through energy bills.

Finally, the Chancellor announced a number of reforms and consultations with the aim of consolidating UK-funded pensions and having them

9 The Government recently announced higher maximum bid prices for renewable energy auctions, reflecting higher borrowing costs and supply chain constraints that have reportedly increased project costs by 40 per cent. See: Department for Energy Security and Net Zero, Boost for offshore wind as government raises maximum prices in renewable energy auction, November 2023.
10 EY, Renewable Energy Country Attractiveness Index, November 2023.
11 See, for example: E Saez et al., The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review, Journal of Economic Literature 50(1), 2012
12 This could be explained by the fact that, for most workers, marginal tax rates do not change when allowances and thresholds are frozen. On the other hand, marginal tax rates change a great deal for those workers that end up on a different side of the threshold.
13 P Brandily et al., Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth, Resolution Foundation, June 2023.
14 Department for Levelling Up, Housing & Communities, Getting Great Britain building again: Speeding up infrastructure delivery, November 2023.
15 Department for Energy Security and Net Zero & Ofgem, Connections Action Plan, November 2023.

invest more in growth-boosting investments. These reforms are broadly in the right direction, but the key test will be whether they deliver more focused, long-term, productivity-boosting management for UK firms.[16]

The OBR has not assumed any growth impact from the reforms to planning and pensions, but the effects could be considerable. On the other hand, the real-terms cuts in public investment confirmed yesterday are certain to harm growth. The public sector is expected to invest a total of 1.1 per cent of annual GDP less by 2027-28, enough to lower potential GDP by around 0.3 per cent.[17] So real-terms cuts to public investment could harm growth about as much as the welcome measures above may boost it.

Inflation has been much higher than expected meaning the cash size of the economy is much larger than expected in March

In contrast to the broadly unchanged outlook for real GDP, the level of nominal GDP is up significantly. In 2027-28, nominal GDP is forecast to be 5.3 per cent above the level expected in March, providing a material boost to tax revenues. This reflects higher and more stubborn inflation than expected in March. Although inflation has been falling sharply, with the Government claiming victory on halving inflation, it has fallen more slowly than the OBR previously forecast (see Figure 3). In Q3 2023, CPI inflation stood at 6.7 per cent, by which point the OBR had previously expected a fall to 5.4 per cent.

Further out, the OBR's medium-term inflation forecast has changed even more significantly. The OBR previously expected CPI inflation to significantly undershoot the Bank of England's 2 per cent target in the middle of its forecast, falling to -0.1 per cent at the end of 2025. It now expects inflation to be more persistent, bringing its medium-term forecast in line with the Bank of England's.[18]

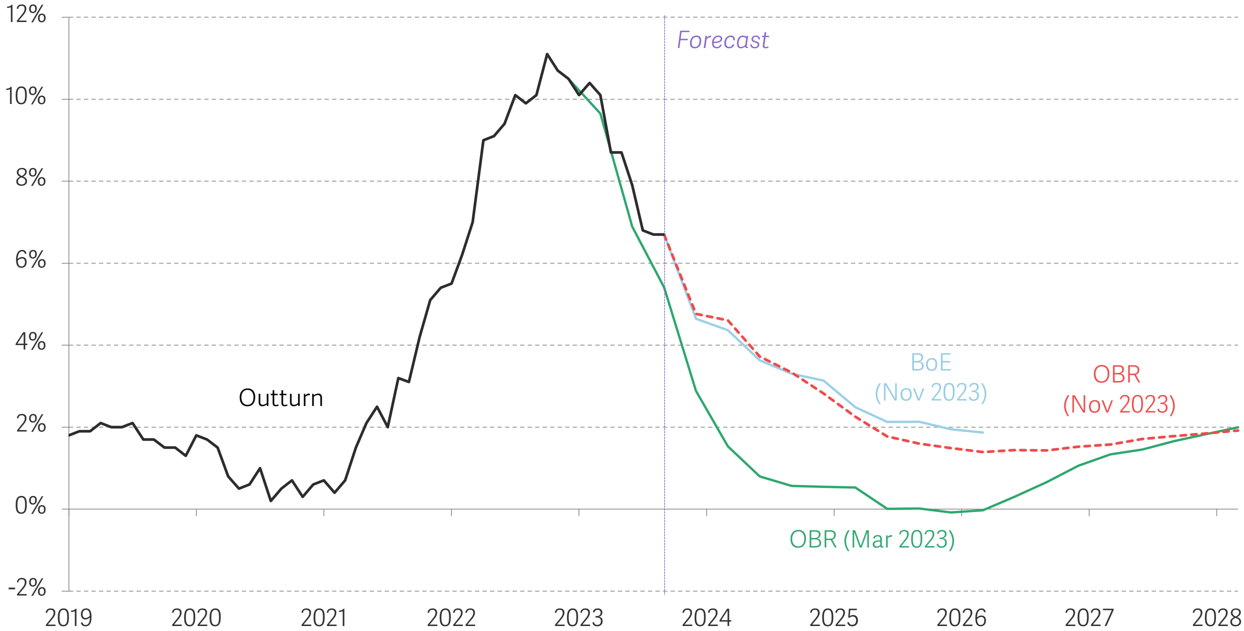
16 P Brandily et al., Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth, Resolution Foundation, June 2023.

17 Source: Table A. 10 in OBR, Economic and fiscal outlook, November 2023 shows that cumulative public sector net investment is around 1.1 per cent of GDP lower by 2027-28. ONS, Capital stocks and fixed capital consumption dataset, January 2023 shows that the ratio of the net public sector capital stock to GDP is around one-third, implying that 1.1 per cent of GDP is about 3 per cent of the capital stock. And other work reports an elasticity of GDP with respect to public capital of around 0.1 (see: P R D Bom & J Ligthart, What have we learned from three decades of research on the productivity of public capital?, Journal of Economic Surveys 28, December 2014). So the impact on potential GDP is around 0.1 × 3 per cent = 0.3 per cent.

18 This change was due to a reassessment of the economic fundamentals, rather than the impact of the Government's fiscal announcements: the measures announced in the Autumn Statement were estimated increase the price level by only 0.1 per cent over the OBR's forecast horizon.

FIGURE 3: **Inflation this year has been higher than the OBR expected in March**

Outturn and forecasts for CPI inflation from the OBR and Bank of England: UK



SOURCE: OBR, Economic and Fiscal Outlook, various; Bank of England, Monetary Policy Report, November 2023.

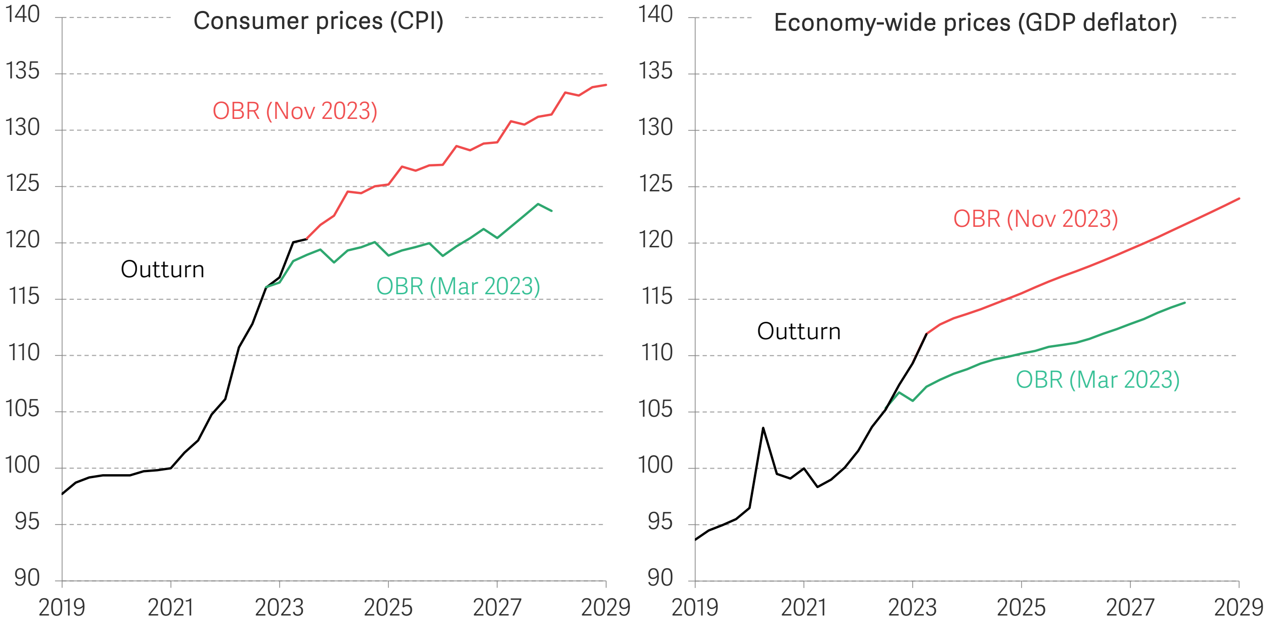
Higher inflation in both the short and medium term means a much higher price level towards the end of the forecast. In 2027-28, the OBR forecasts consumer prices to be 7 per cent higher than expected in March, as shown in the left panel of Figure 4. The OBR's revision to the level of prices in the wider economy (as measured by the GDP deflator and shown in the right panel of Figure 4), is smaller but still very substantial at 5 per cent by 2027-28. This is why the economy is expected to be so much larger in cash terms than previously thought.

Consistent with higher and more persistent inflation (along with a more resilient economy) is nominal wage growth being stronger. Nominal wage growth was 8.2 per cent in Q2 2023 – a full 2 percentage points higher than the OBR's March forecast – and the OBR now expects annual wage growth to remain above 5 per cent for the rest of this year, only falling below 3 per cent in 2025.[19] The upgrade means that by the start of 2028, average nominal wages are set to be £1,700 a year higher than the OBR expected in the Spring.

19 Note that the earnings growth measure the OBR uses is based on National Accounts data, rather than the Average Weekly Earnings data that is usually used for shorter-term labour market monitoring.

FIGURE 4: **The OBR is now forecasting a higher price level, including the measure of economy-wide prices used to calculate nominal GDP**

Outturns and forecasts for the level of the Consumer Price Index (left panel) and GDP deflator (right panel): UK

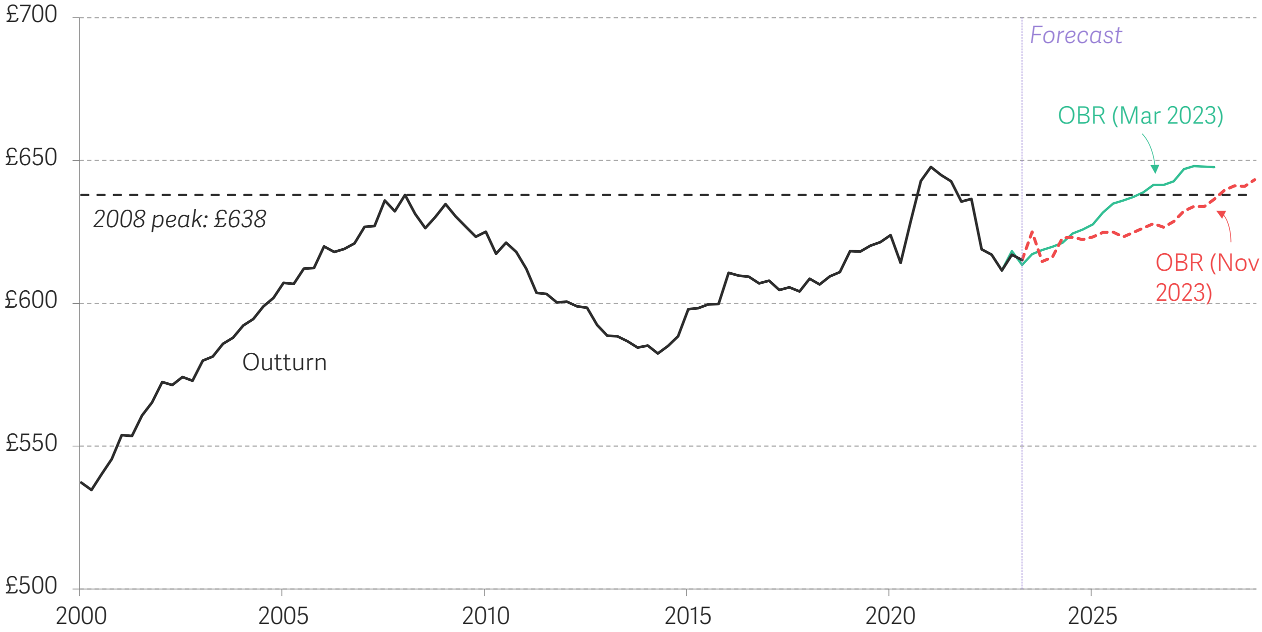


NOTES: All series are rebased such that Q1 2021 = 100.
SOURCE: OBR, Economic and Fiscal Outlook, various; ONS, Consumer Price Inflation and National Accounts.

But in real terms, the picture is much less perky: higher cash wages will be more than offset by higher inflation, meaning that the level of real wages is lower than the OBR's March forecast (Figure 5). And zooming out, the bigger picture is still one of stagnant real wages since the financial crisis. Real average weekly earnings are now set to remain below their 2008 level until 2028 (rather than 2026 as the OBR forecast in March), marking a totally unprecedented two decades of wage stagnation.

FIGURE 5: **Real wages are set for a twenty-year stagnation**

Real average weekly earnings, outturn and successive OBR forecasts: UK



NOTES: Deflated to 2023-24 prices using CPI. Forecasts are calculated from successive OBR forecasts of average earnings and CPI, and indexed to the latest Average Weekly Earnings (regular pay) outturn available at the time of the relevant Economic and Fiscal Outlook. OBR's CPI forecasts have been seasonally adjusted.
SOURCE: RF analysis of ONS, Labour market statistics; ONS, Consumer price inflation; OBR, Economic and Fiscal Outlook, various.

High nominal wage growth has, however, contributed to a bumper increase in the minimum wage. The Chancellor announced that the National Living Wage (NLW) will rise to £11.44 next April, the third largest increase in its history (Box 2).

BOX 2: **The NLW will increase to £11.44 in April**

The Chancellor has formally announced that the NLW will increase from £10.42 to £11.44 in April 2024, having trailed a rise to "at least £11" back in October.[20] The uprating will deliver the third largest percentage rise in the minimum wage's history (in part because typical earnings, relative to which the minimum wage is set, have grown so strongly in recent months), giving around 1.7 million workers a real-terms pay rise of 5.3 per cent.[21] And it will bring the adult minimum wage rate, which will also be extended to 21-22-year-olds in April, up to the Low Pay Commission's target of two-thirds of typical hourly pay.

The minimum wage has been a huge policy success, raising the wages of the lowest earners with no discernible hit

20 BBC News, National living wage to rise to £11 an hour, Jeremy Hunt confirms, October 2023.
21 Using the OBR's Q2 2024 inflation forecast of 5.3 per cent. This analysis is updated from: N Cominetti, Giving with one hand…: Exploring the impact of minimum wage uprating in 2024 on living standards, Resolution Foundation, November 2023.

to employment. Having started from a relatively modest rate (it was worth just 46 per cent of median pay in 1999), it has transformed the pattern of wage growth in the UK. [22] In the two decades prior to the minimum wage, pay growth was strongest at the top of the pay distribution, but since its introduction, pay growth has been consistently strongest for the lowest earners. Since the NLW (a higher adult-rate minimum wage) was introduced in 2015, real pay growth for the bottom fifth of earners has averaged 2.5 per cent a year, compared to 0.6 per cent a year at the median.[23]

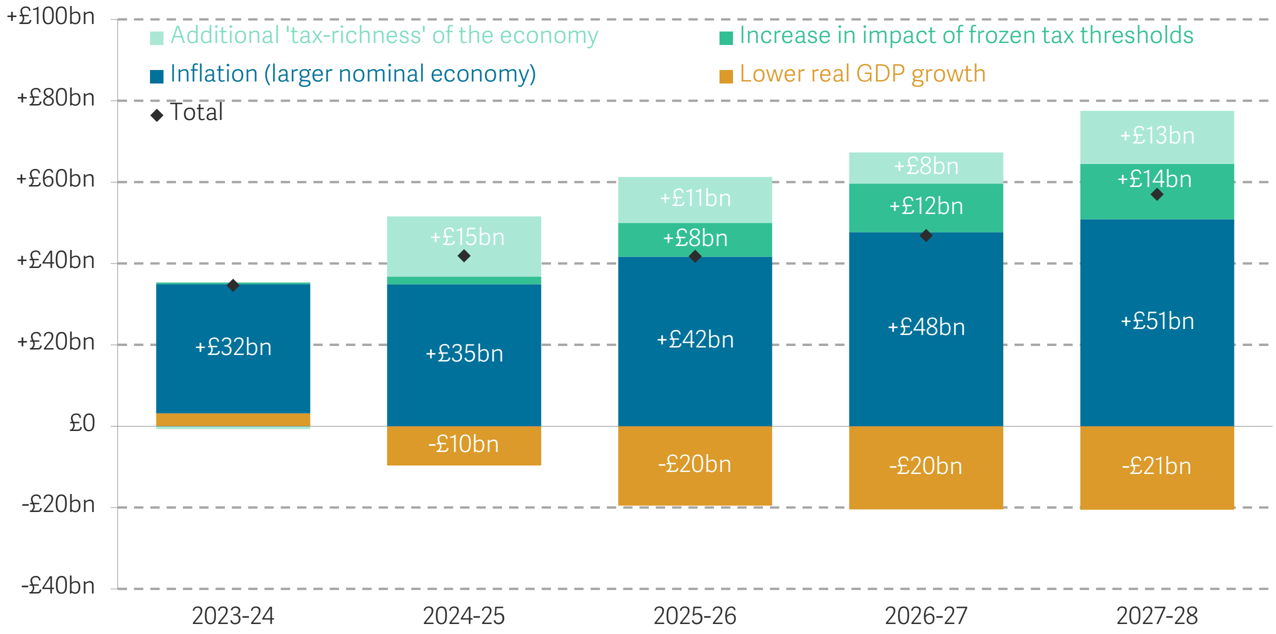
The Chancellor has spent much of his fiscal windfall in the Autumn Statement

Given the much higher path for inflation (and wages) than expected in March, tax receipts are now expected to be much stronger (Figure 6). With the economy around 5 per cent bigger in nominal terms by the end of the forecast period, receipts are up by an average of over £40 billion per year over the forecast (the dark blue bars in Figure 6). The continued freeze in income tax and NICs thresholds interacts with this higher inflation and wage growth to drag more individuals into higher tax brackets. This increases the effective tax rate and adds a further average of £7 billion per year to taxes across the forecast (the darker green bars). Adding to that, the OBR has assumed that the recent strength in Corporation Tax and VAT, which have outperformed the OBR's forecasts, suggest that the economy is more 'tax-rich' than previously assumed (the light green bars). This again increases the effective tax rate and adds a further average of £9 billion per year to tax receipts. Offsetting these large upwards revisions to some degree are the effects of lower real GDP growth across the forecast, which reduces receipts by £13.4 billion on average (the yellow bars).

22 Low Pay Commission, Low Pay Commission Report 2022, January 2023.
23 N Cominetti et al., Low Pay Britain 2023: Improving low-paid work through higher minimum standards, Resolution Foundation, April 2023.

FIGURE 6: **Tax revisions are due to a combination of higher inflation, frozen tax thresholds and higher 'tax richness' of the economy**

Change in National accounts taxes between March 2023 and November 2023 forecasts



NOTES: Excludes PSNB-neutral receipt flows.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March and November 2023.

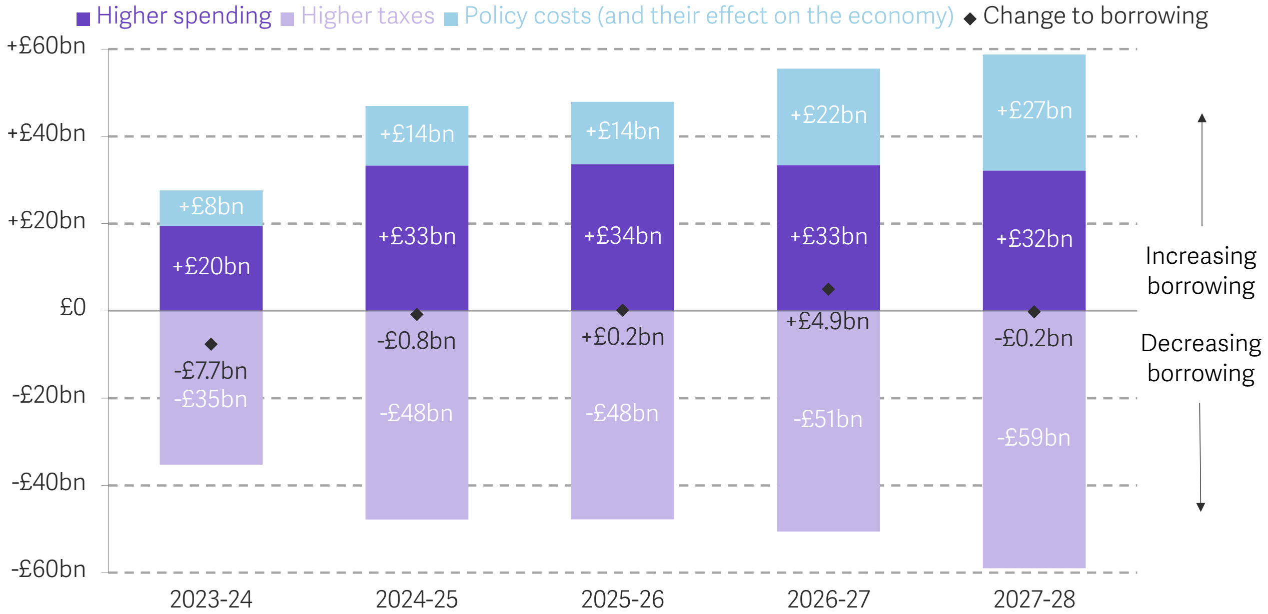
Taking these changes to their economic and fiscal assumptions together (and including some borrowing-neutral tax receipts that also increase spending), the OBR now expects tax receipts to be a mammoth £48 billion higher on average across the forecast (the light purple bars in Figure 7). The £59 billion (1.9 percentage points of GDP) increase in the forecast for 2027-28 amounts to the largest upwards revision to tax receipts as a result of changes to the economic outlook since the OBR was founded in 2010.

These larger tax receipts are only partially offset by the impact of higher inflation and interest rates on welfare spending and debt-servicing costs. That extra spending increases borrowing by an average of £30 billion each year across the forecast (the dark purple bars in Figure 7). In 2027-28 around £20 billion of this relates to the higher costs of uprating welfare spending in a higher inflation environment, with £15 billion relating to higher debt interest costs.[24] Central government debt interest costs are now over £120 billion by 2028-29, or 3.8 per cent of GDP.[25] Debt interest costs will dwarf every government department's budget other than the Department for Health.

24 Departmental and other spending flows offset welfare spending and debt interest to slightly reduce the overall total to the £32 billion presented above.
25 Interest rates have fallen slightly since the OBR calculated its debt interest forecast, so costs today could be around £6.5 billion lower by the end of the forecast.

FIGURE 7: **Higher tax receipts reduce borrowing, but almost of all of the fiscal good news has been spent on policy – largely tax cuts**

Change in public sector net borrowing between March 2023 and November 2023 forecasts



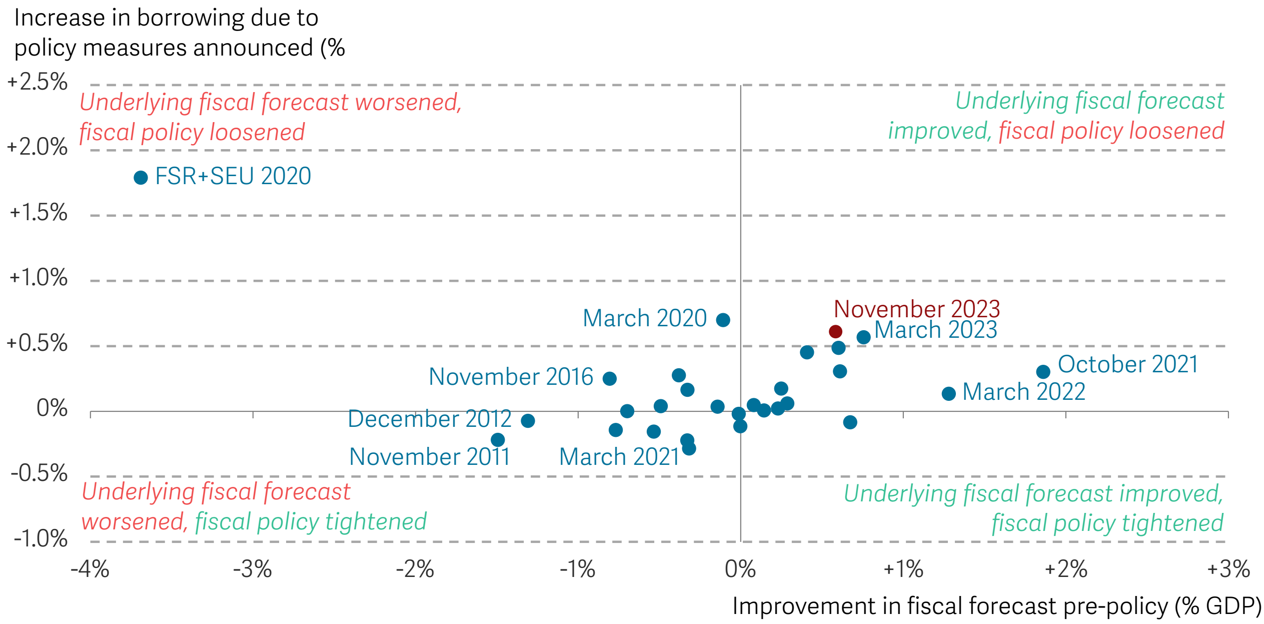
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2023.

Cumulatively, this would amount to a nearly £90 billion reduction in borrowing between 2023-24 and 2027-28 due to the impact of changes in the OBR's economic forecasts. However, the Chancellor has announced policies that increase borrowing by an average of £17 billion per year out to 2027-28 (the light blue bars in Figure 7 above), spending nearly all (96 per cent) of this windfall.

The scale of the fiscal loosening at the Autumn Statement stands out historically. As shown in Figure 8, Chancellors receiving good fiscal news have generally loosened fiscal policy, i.e. spent the proceeds rather than 'banking' them for a rainy day. Of the thirteen Budgets since 2010 where Chancellors received good fiscal news on average across the five-year forecast horizon, twelve of these saw Chancellors choosing to spend some proportion of it. But this Autumn Statement is the largest 'good news' loosening since the OBR's inception in 2010. And only the fiscal events in March 2020 and during the pandemic have seen larger policy loosening. Such an easing in policy represents a significant gamble on the part of the Chancellor, albeit maybe not a surprising one given the stage of the election cycle.

FIGURE 8: **The Chancellor has followed others in spending most of the forecast improvement on policy measures**

Increase in public sector net borrowing due to policy measures announced and change in pre-measures fiscal forecast as a proportion of GDP over five years, by fiscal event: November 2010 to November 2023



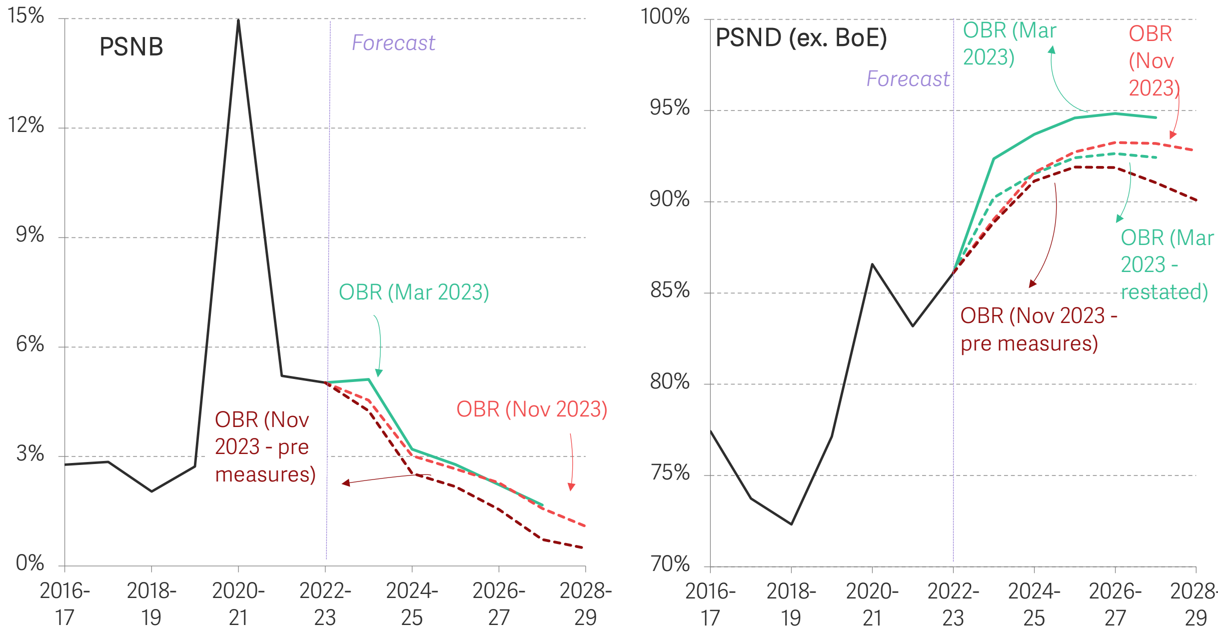
SOURCE: RF analysis of OBR, Fiscal forecast revisions database, November 2023. 'FSR + SEU 2020' relates to Fiscal Sustainability Report and Summer Economic Update in July 2020.

All this leaves borrowing only very marginally improved in aggregate across the forecast, by an average of £0.7 billion per year.[26] This lower borrowing, combined with the larger cash-size of the economy, slightly reduces the borrowing-to-GDP ratio (Figure 9), which peaks at 4.5 per cent this year, falling to 1.1 per cent of GDP by 2028-29.[27] Debt as a proportion of GDP (excluding the Bank of England), now peaks at 93.2 per cent of GDP in 2026-27. It then falls over the rest of the forecast, to reach 92.8 per cent of GDP by 2028-29. This is significantly lower than the previously published March 2023 forecast, but higher by an average of 0.4 percentage points of GDP from next year onwards, looking at a like-for-like forecast that adjusts for the impact of the ONS' recent Blue Book revisions to the level of GDP (see Figure 9).

26 Given the significant debt interest costs included in these borrowing figures, the primary balance looks comparatively healthy, recording a 2 per cent of GDP surplus by 2028-29.
27 Taking a 'like-for-like' comparison that strips out the impact of ONS Blue Book revisions to the NGDP denominator.

FIGURE 9: **Borrowing is virtually unchanged from March 2023 forecasts as a proportion of GDP**

Public sector net borrowing and public sector net debt (excluding the Bank of England) as a proportion of GDP, outturn and forecasts



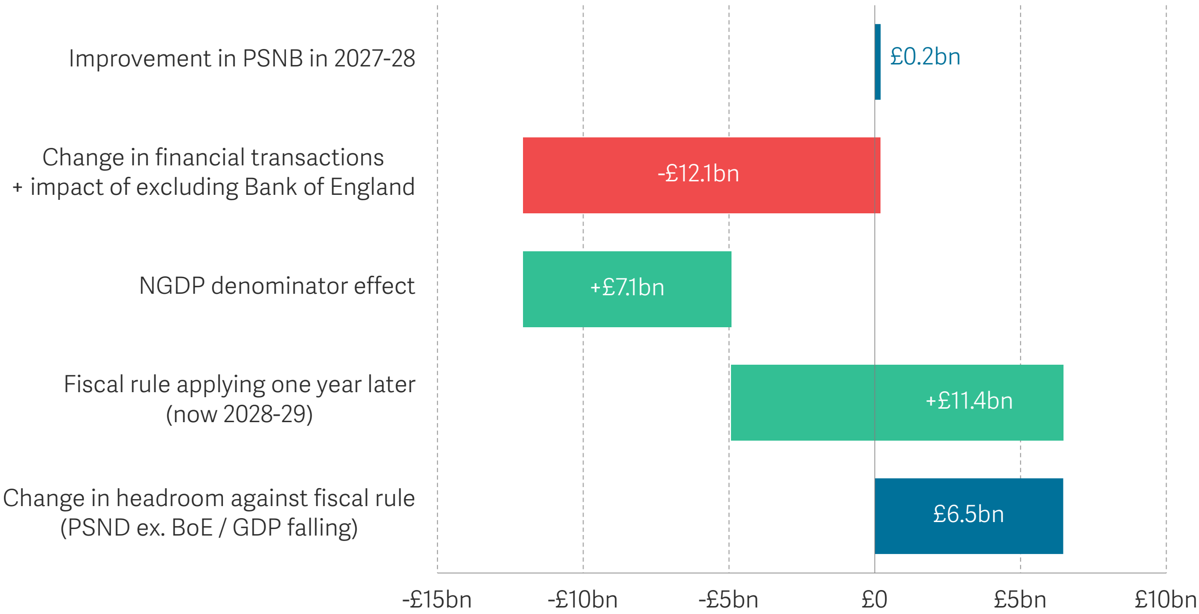
NOTES: NGDP denominator for the March 2023 forecast "restated" is here re-based to reflect ONS Blue Book revisions.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2023.

The improvement in fiscal headroom since March 2023 is slightly larger than might be expected given the only £0.2 billion reduction in borrowing in 2027-28. As illustrated in Figure 10, financial transactions and valuation effects (which are not included in borrowing but affect debt), primarily relating to the fiscal costs of the Bank of England's QE programmes, have reduced headroom by £12.1 billion.[28] However, this is more than offset by the effect of a larger economy in cash terms (increasing the Chancellor's headroom by over £7 billion) and the rolling forward of the calculation by a year which adds a further £11 billion. This means headroom has doubled, increasing from £6.5 to £13 billion. But the big picture is of debt never actually falling over the forecast period, but once again being forecast to slightly reduce in five years' time. Fiscal prudence remains something to be planned for another day, not delivered today.

28 These fiscal flows relate to costs associated with the Bank's quantitative easing programmes carried out during the financial crisis and covid periods. High Bank rate and low gilt prices have resulted in significant 'losses' relating to the scheme from both high interest payments due on Bank reserves and losses from gilt sales (as quantitative tightening is carried out), meaning the Treasury is now forecast to transfer nearly £195 billion to the Bank of England over the forecast, including nearly £10 billion more than previously forecast in 2027-28.

FIGURE 10: **Headroom has improved more than expected given very small improvements in borrowing at the forecast horizon**

Improvement in headroom against public sector net debt (excluding the Bank of England) fiscal rule, by component: UK, 2028-29

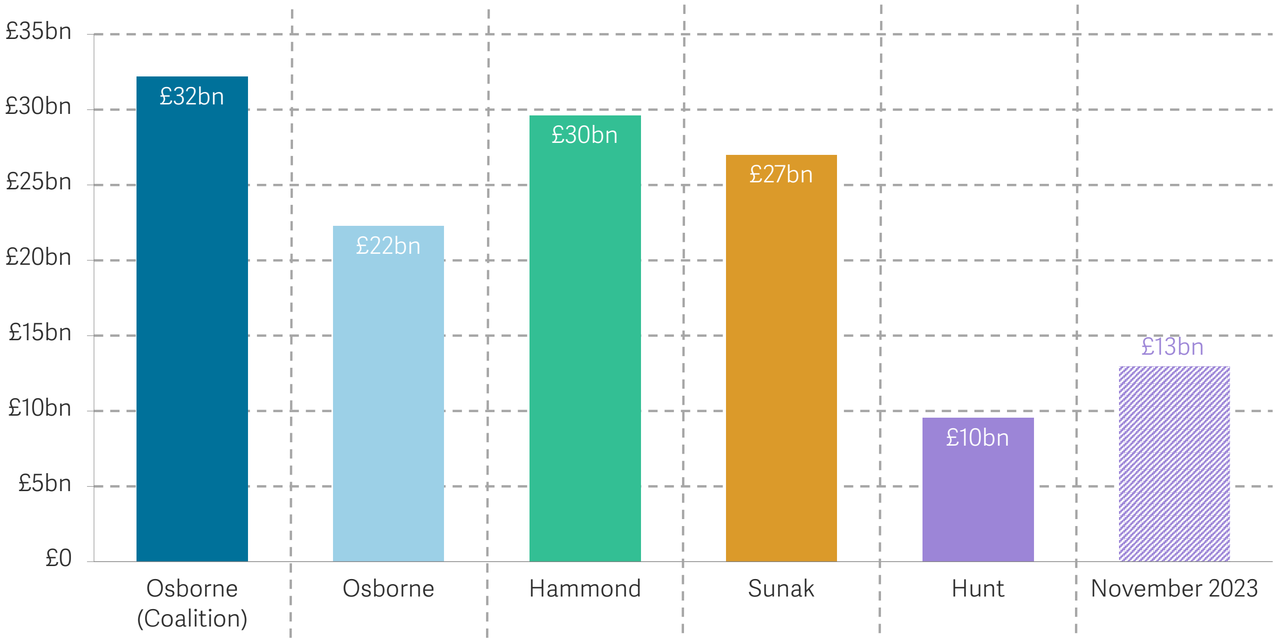


SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2023.

This £13 billion headroom remains extremely small in historical terms, with the average headroom against the UK's fiscal rules since 2010 sitting at more than double this, at around £27 billion (Figure 11). And the choice to run fiscal policy so close to the fiscal rules also looks like something of a gamble given huge uncertainty surrounding the outlook. This is before we take account of the fiscal uncertainties and 'illusions' that are present in the forecast, where there are several assumptions the OBR are obliged to include as Government policy which are unlikely to materialise in reality (including unrealistically tight departmental spending plans which we discuss below).

FIGURE 11: **The Chancellor's £13 billion headroom is relatively low by historical standards**

Average forecast headroom against their respective fiscal rules by Chancellor, and November 2023 forecast headroom



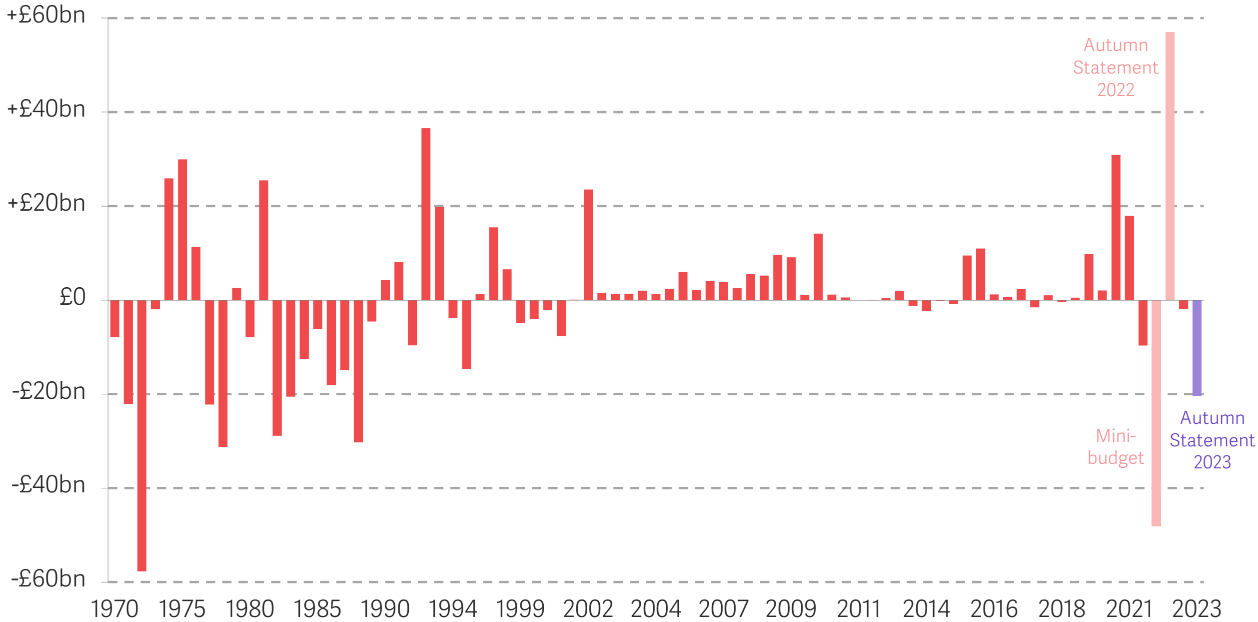
NOTES: Average headroom relates to the following past fiscal targets: 'Osborne (Coalition)' fiscal targets relate to balancing the cyclically-adjusted current deficit in three years; 'Osborne' relates to balancing public sector net borrowing in five years (original rule required this to be met in 2019-20, and then in each subsequent year); 'Hammond' relates to cyclically adjusted public sector net borrowing being less than 2 per cent of GDP in three years (rule referred to a fixed target year while it was in place, so comparison uses the average time left to reach the rule over the term it applied); 'Sunak' relates to public sector net debt (excluding the Bank of England) falling as a proportion of GDP in three years. Historical headroom is here presented as a percentage of GDP, multiplied by November 2023 NGDP in 2028-29 for comparability with this forecast. 'Hunt' relates to all budgets since November 22, including November 2023.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2023.

The Government has spent its windfall on tax giveaways, but the reality is that taxes are going up

As we have seen, the Chancellor has spent almost all of the pre-measures forecast improvement in borrowing between 2023-24 and 2027-28 on his Autumn Statement measures. The Autumn Statement amounts to a significant pre-election giveaway, with tax cuts worth £20 billion in 2028-29. Figure 12 shows that this represents the biggest package of net tax cuts at a fiscal event since 1988 (excluding the announced but never implemented tax measures in last year's mini-budget).

FIGURE 12: **Other than the quickly-reversed mini-budget, this was the biggest tax-cutting fiscal event since 1988**

Net long-term annual impact of tax policy announcements today and at each fiscal event since 1970: UK



NOTES: 2028-29 nominal GDP terms. Based on forecasts from the time of each fiscal event (actual impacts on tax revenue may have differed). Autumn Statement 2022 includes mini-budget reversals and scrapping of 19 per cent rate of Income Tax.
SOURCE: RF analysis of OBR, Policy measures database; HM Treasury, The Growth Plan 2022; HM Treasury, Autumn Statement 2023 Policy Decisions.

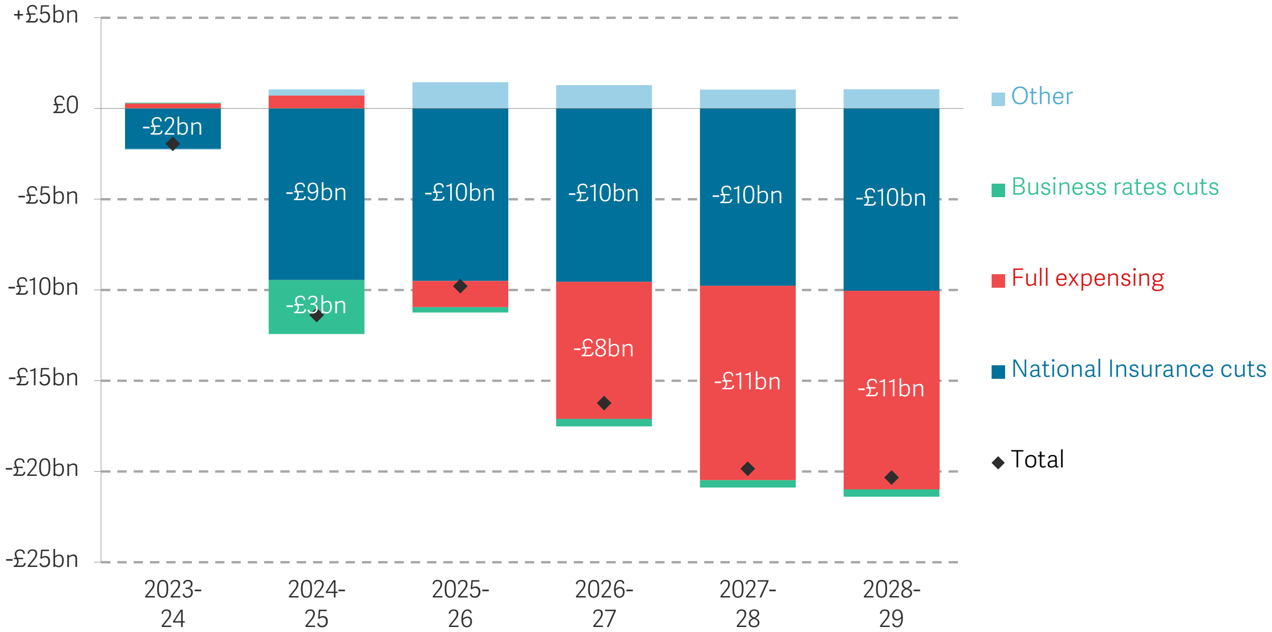
As shown in Figure 12, the single most expensive policy change is the welcome permanent extension of full expensing of certain types of investment spending against Corporation Tax, discussed earlier in Box 1, although the cost can be expected to shrink significantly in the longer term, as it largely represents a change in the timing of tax payments.[29]

The other main tax giveaway comes from significant reductions in National Insurance (NI). This includes a 2-percentage point cut in the main rate of employee NI, from 12 per cent to 10 per cent, which costs £9 billion by 2028-29; and under £1 billion to reduce the main rate of Class 4 NI for the self-employed by 1 percentage point and abolish Class 2 NI (a flat charge paid by the self-employed).

29 S Adam & H Miller, Full expensing and the corporation tax base, Institute for Fiscal Studies, October 2023.

FIGURE 13: **The total tax giveaway is £20 billion in 2028-29, with the biggest changes being full expensing and the NI rate cut**

Nominal cost of tax policy changes in each year: UK



NOTES: Negative numbers represent tax cuts; positive numbers are tax increases.
SOURCE: HMT, Autumn Statement 2023.

There are advantages to cutting National Insurance, although most of the gains will go to those with higher incomes

The 2p reduction in the main rate of employee NI will save employees up to £754, while the self-employed will gain up to around £570 from a rate cut and the abolition of Class 2 NI; in both cases, the largest gains are for higher earners (broadly speaking, those with employee or self-employment earnings and currently paying the higher or additional rates of income tax). Overall, roughly 29 million workers will benefit by an average of around £330 each, and – if we exclude 2022's rise and fall in rates – this was the first cut in the main employee NI rate since reforms in 1985.[30]

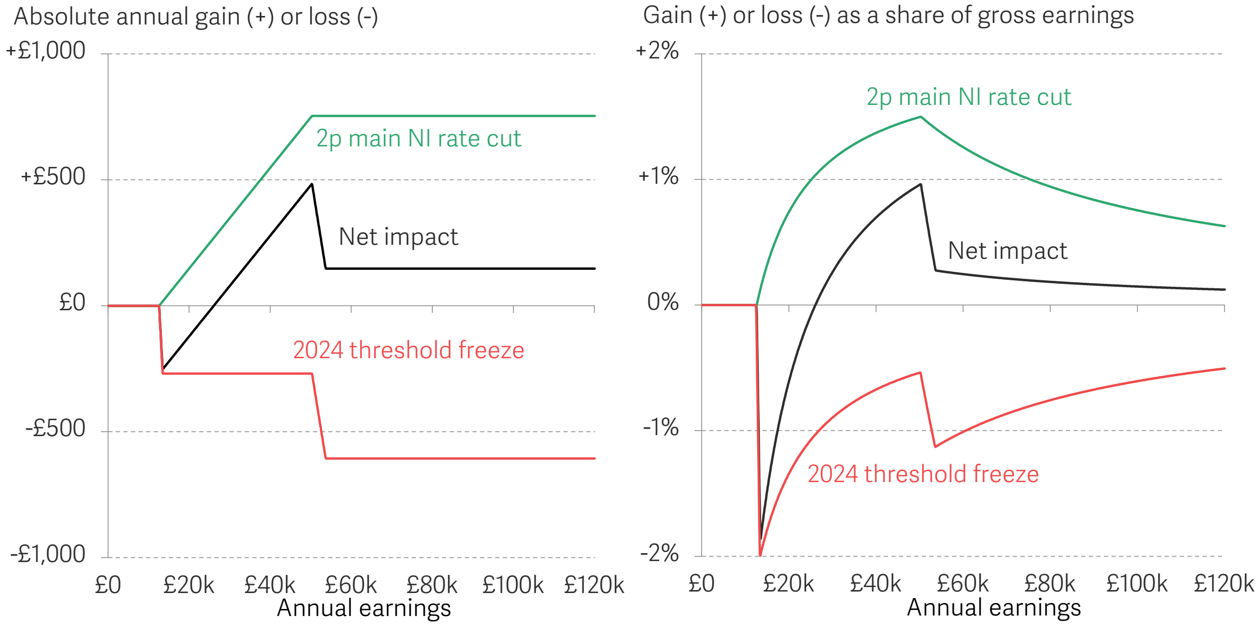
From the perspective of designing a fair, efficient tax system, this NI package has some advantages. It reduces the bias against earnings compared with other forms of income such as dividends, capital gains or rents,[31] and closes the gap in taxation between older and younger workers (because only those aged below the state pension age pay National Insurance). And the fact that employees see a larger tax cut than the self-employed slightly reduces the tax bias towards the latter among higher earners (although it would have been still better if the self-employed NI rate had not been reduced at all).

30 IFS, IFS Fiscal Facts, accessed November 2023.
31 For further discussion, see: M Broome, A Corlett & G Thwaites, Tax planning: How to match higher taxes with better taxes, Resolution Foundation, June 2023.

But it is not a progressive tax cut overall. On an individual level, low earners receive less than higher earners (see Figure 14). And, on a household level, dual earner households can receive twice the benefit (up to £1,500 a year), while tax-paying households on Universal Credit will lose 55 per cent of any tax cut through means-testing. Overall, around 80 per cent of the benefit of the NI cuts will go to the top half of the population.

FIGURE 14: **The biggest cash winners from the NI rate cut are higher-rate payers, and low earners will be net losers given threshold freezes**

Impact on employees of a 2p reduction in the main rate of National Insurance plus Income Tax / employee National Insurance threshold freezes in 2024-25: UK excluding Scotland



NOTES: Freeze is relative to the £12,570 and £50,270 Income Tax and National Insurance thresholds rising in line with 6.7 per cent inflation. Excludes any impacts from higher employer NI. Does not include the impact of Universal Credit means-testing.
SOURCE: RF analysis.

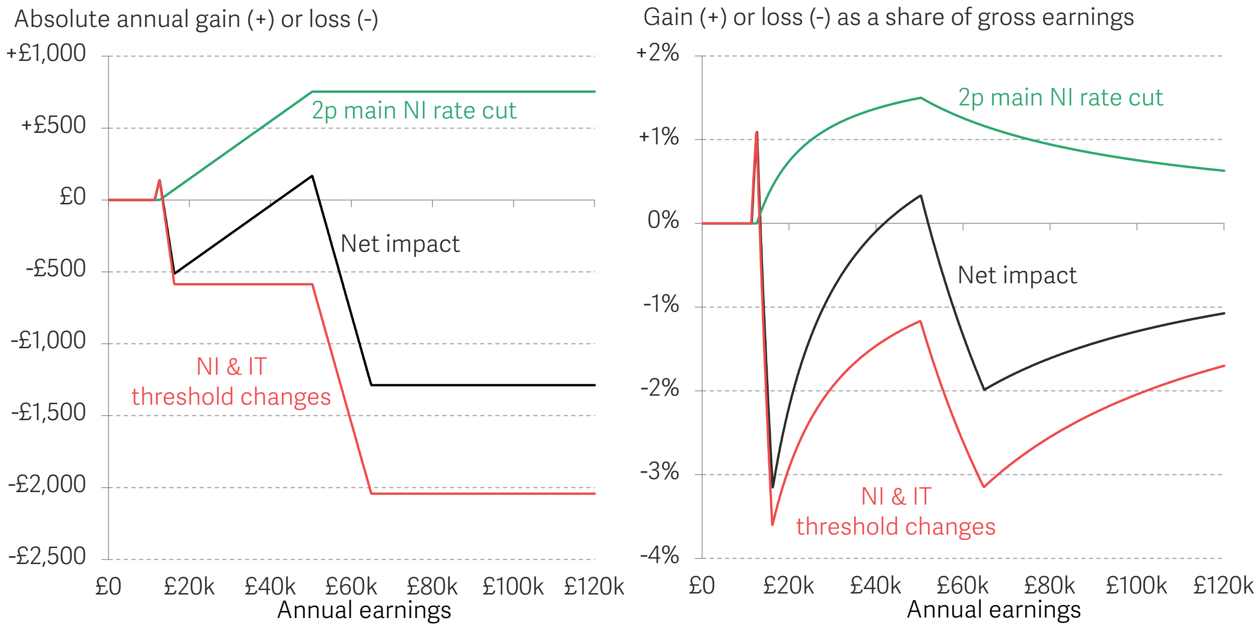
Most importantly, this change needs to be seen in the context of other, ongoing tax rises. In 2024, Income Tax and NI thresholds will be frozen again, rather than following the default rule of rising in line with (6.7 per cent) inflation. Figure 14 shows the gains from the NI rate cut alongside the losses from this failure to uprate thresholds in April 2024, which for basic rate payers implies a tax rise of £270. Employees earning below £26,000 (which is roughly the median salary) will be worse off next year from this combination of policy changes, while those above will gain – with someone earning £50,000 receiving the biggest net benefit.[32]

32 Median earnings from ONS/HMRC, Earnings and employment from Pay As You Earn Real Time Information, UK: November 2023.

Zooming out to look at the impact of all of this Parliament's Income Tax and NI policy changes, including the full six-year threshold freeze, almost all those paying Income Tax or National Insurance lose out. The new £10 billion tax cut compares to a £45 billion tax rise in 2028-29 from previous policies, meaning a net personal tax rise of around £1,200 per household. As Figure 15 shows, some narrow groups of employees may be net winners, however: those earning around £50,000 (who receive the full benefit of the NI rate cut) and some very low earners who have benefited most from past increases in the NI threshold. Overall, the combination of threshold freezes and rate cuts leaves a strange distribution of tax rises (and cuts) that is hard to justify (see Figure 15).[33]

FIGURE 15: **Almost all workers are worse off due to Income Tax and National Insurance changes announced over this Parliament**

Impact on employees of this Parliament's Income Tax and personal National Insurance policy changes in 2027-28: UK exc. Scotland



NOTES: Threshold changes include the positive impact of NI threshold increases as well as Income Tax and NI threshold freezes. Excludes any impacts from higher employer NI. Does not include the impact of Universal Credit means-testing.
SOURCE: RF analysis.

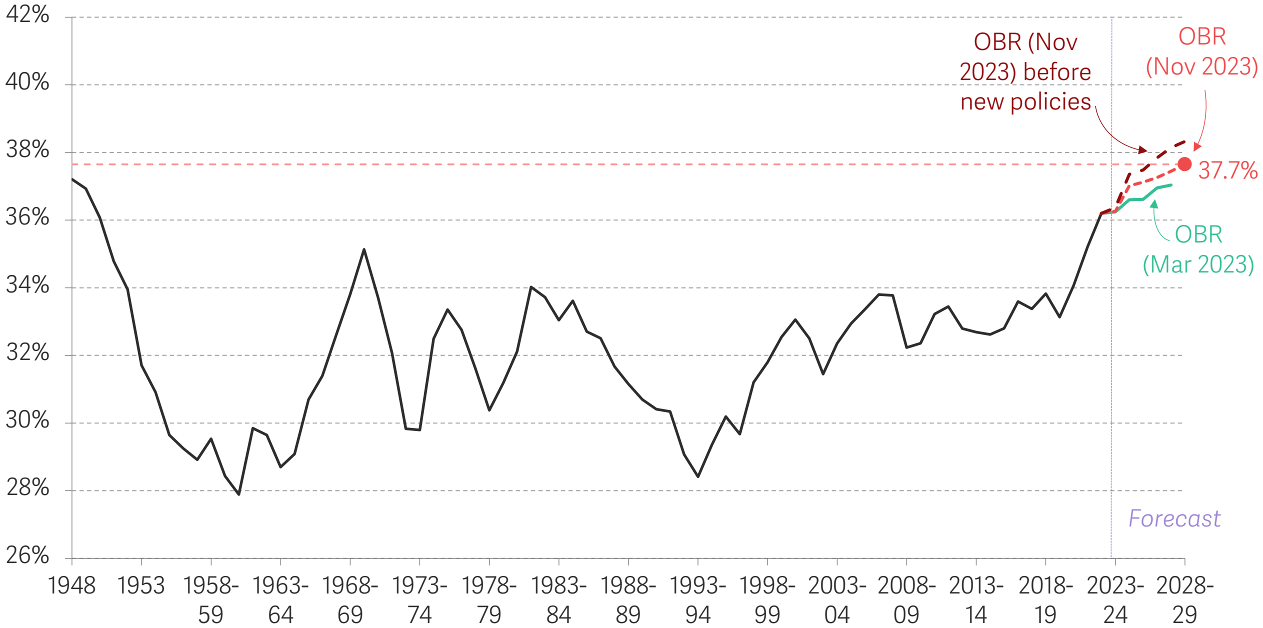
In aggregate, though, despite this fiscal event delivering significant tax cuts, taxes are still going up. Figure 16 shows that the tax burden is forecast to reach a post-war high of 37.7 per cent of GDP in 2028-29. This represents a 4.5 percentage point increase in the tax burden since 2019-20, equivalent to £4,300 per household in 2028-29.

33 Note that we present household-level impacts further below.

This rise in taxes reflects that the Government has faced a number of upward pressures on public spending. First, the rise in interest rates has increased the cost of servicing government debt, with debt interest forecast to be 4.3 per cent of GDP in 2023-24, 0.6 percentage points higher than forecast in March. Second, there are some long-run social and demographic trends pushing up spending, such as an ageing population and a rise in the proportion of people with long-term health conditions. In cash terms, spending on health and disability benefits is expected to rise from £66 billion in this year (2023-24) to £93 billion by 2028-29, representing a 42 per cent increase over the forecast period, and pensioner benefit spending is forecast to increase by 21 per cent over the same period, from £142 billion to £172 billion.[34]

FIGURE 16: **Despite large tax cuts at the Autumn Statement, the tax burden will continue to rise**

National account taxes as a proportion of GDP: UK



NOTES: GDP denominator for the March 2023 forecast has been re-based to reflect ONS Blue Book revisions.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2023.

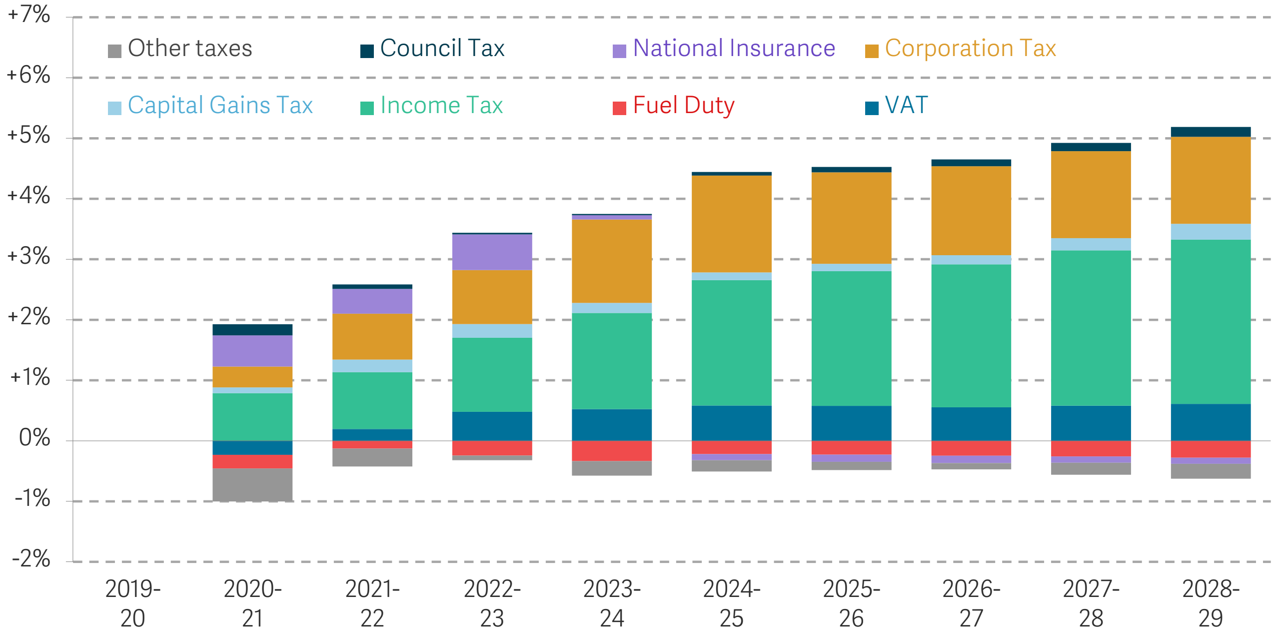
Increased Income Tax revenues explain the lion's share of the 4.5 percentage point increase in the tax take since 2019-20: these rise by around 2.7 percentage points between 2019-20 to 2028-29 (Figure 17), from 8.6 per cent of GDP to 11.3 per cent. These increases are largely driven by fiscal drag and Income Tax threshold freezes that we discussed above, with the overall effective tax rate on wages and salaries rising from 36

34 OBR, Economic and Fiscal Outlook, November 2023. Health and disability benefits includes standard allowance and health element expenditure for UC health-related claimants, employment and support allowance, disability living allowance, personal independence payment, carer's allowance, and attendance allowance. Excludes Northern Ireland disability benefits expenditure. Pensioner benefit spending encompasses the State Pension, Pension Credit, pensioner Housing Benefit and Winter Fuel Payments.

per cent pre-pandemic to 44 per cent in 2028-29, despite the NI cut.[35] Corporation Tax as a share of GDP is also expected to rise substantially between 2019-20 to 2028-29, despite the new policy of full expensing, from 2.3 per cent to 3.6 per cent of GDP.

FIGURE 17: **Income Tax and Corporation Tax account for most of the rise in tax revenue**

Changes in tax revenue as a share of GDP relative to 2019-20: UK



NOTES: Other taxes include: Stamp Duty Land Tax; Tobacco, Alcohol, Vehicle Excise and Air Passenger Duties; Environmental and Energy Profit Levies; Inheritance Tax; and other public sector taxes and receipts.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2023.

There may well be more tax changes to come in the Spring Budget. For one, the fiscal outlook currently assumes that Fuel Duty is going to rise by 5p in March plus RPI in every year. Cancelling the increases due next year would cost £4 billion in 2024-25 alone.

The policy space is a fiction because spending plans have not kept pace with inflation

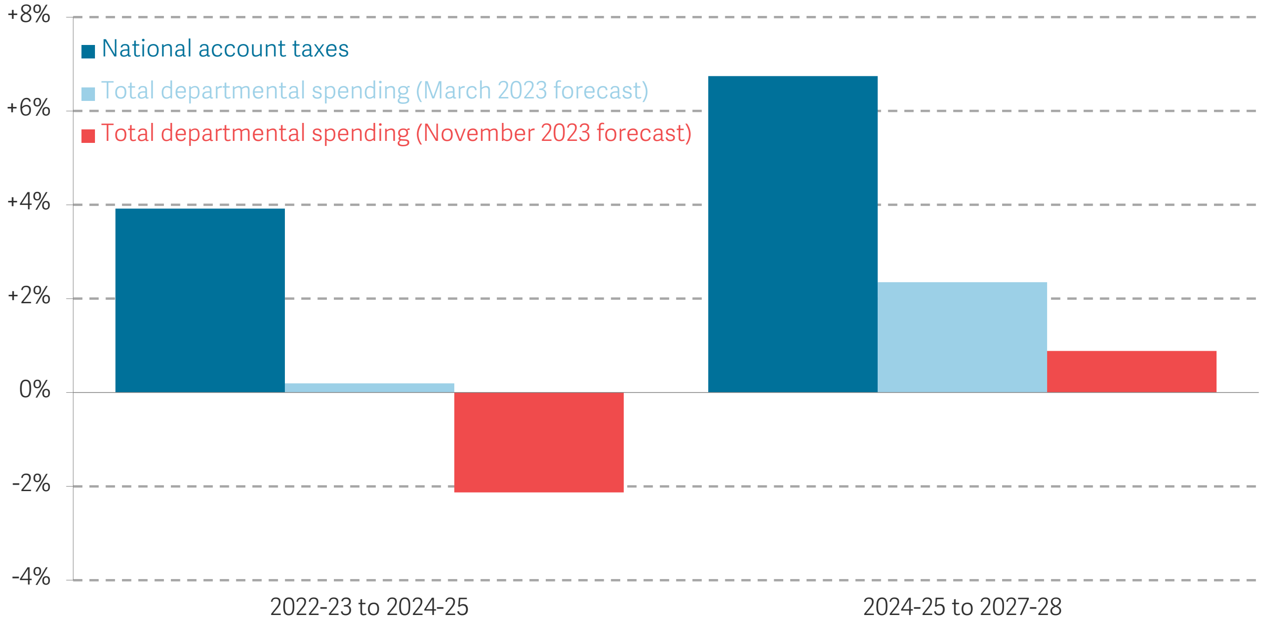
The Chancellor has been able to announce huge tax giveaways without breaking his fiscal rules only because they are accompanied by spending plans for public services that have not yet confronted the reality of higher inflation. This means that the forecast improvement that the Chancellor has spent is itself a fiscal fiction. Indeed, as shown in Figure 18, tax receipts are up by 4 per cent in real terms between 2022-23 and 2024-25, but real total departmental spending (including capital and day-to-day spending) is falling during the current Spending Review period (running until the end of 2024-25) and only slowly growing afterwards. The result is that total spending will be £19 billion

35 OBR, Economic and Fiscal Outlook, November 2023.

lower in real terms by 2027-28 than forecast by the OBR in March 2023. Even though total departmental spending is set to increase after 2024-25, total real-terms spending remains lower in each year of the OBR forecast, as higher inflation has undercut any cash increases.

FIGURE 18: **Total departmental spending plans haven't been increased in line with inflation**

Change in real-terms tax and total departmental spending, various years



NOTES: Real-terms values calculated using GDP deflator.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2023/ various.

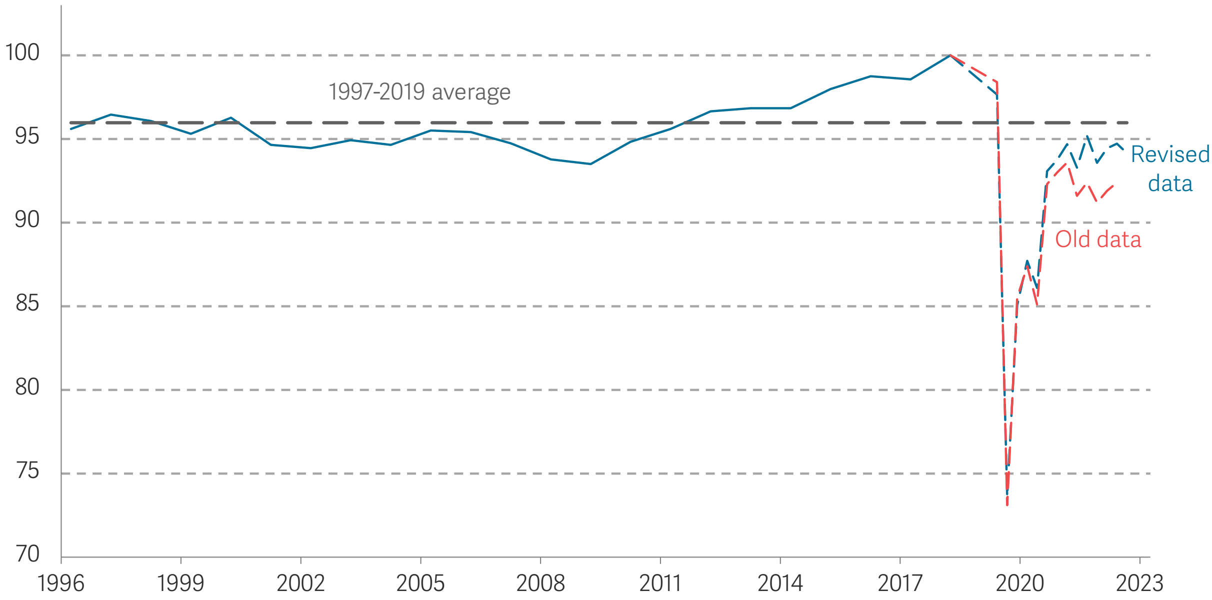
Reflecting this tightening of spending plans and the reality of poor public service outcomes currently visible across a range of services, the Chancellor set out measures to boost public-services productivity as a way of trying to make spending envelopes go further. This is generally welcome, but the likely increases to public service productivity should not be overstated, given that the level of public-sector productivity is not that far below its recent trend, as explained in Box 3.

BOX 3: We cannot rely on a public-sector productivity boom riding to the rescue

The latest data for public-sector productivity suggest there is less scope for catch-up growth than previously thought. Public-sector productivity fell sharply during the pandemic, slumping by almost 10 per cent relative to 2019. But productivity has since rebounded and has also been revised significantly, such that public-sector productivity is now less than 2 per cent below its 1997-2019 average level. Moreover, experimental estimates from the ONS suggest that it has moved even closer to the 1997 to 2019 average.[36] Looking back even further, data shows that public-sector productivity has essentially remained flat over the past 25 years. It did increase above that level towards the end of the 2010s, but through harsh spending cuts that were ultimately unsustainable.

FIGURE 19: **There is not huge scope for public-sector productivity to ride to the rescue**

Public services productivity (2019=100): UK



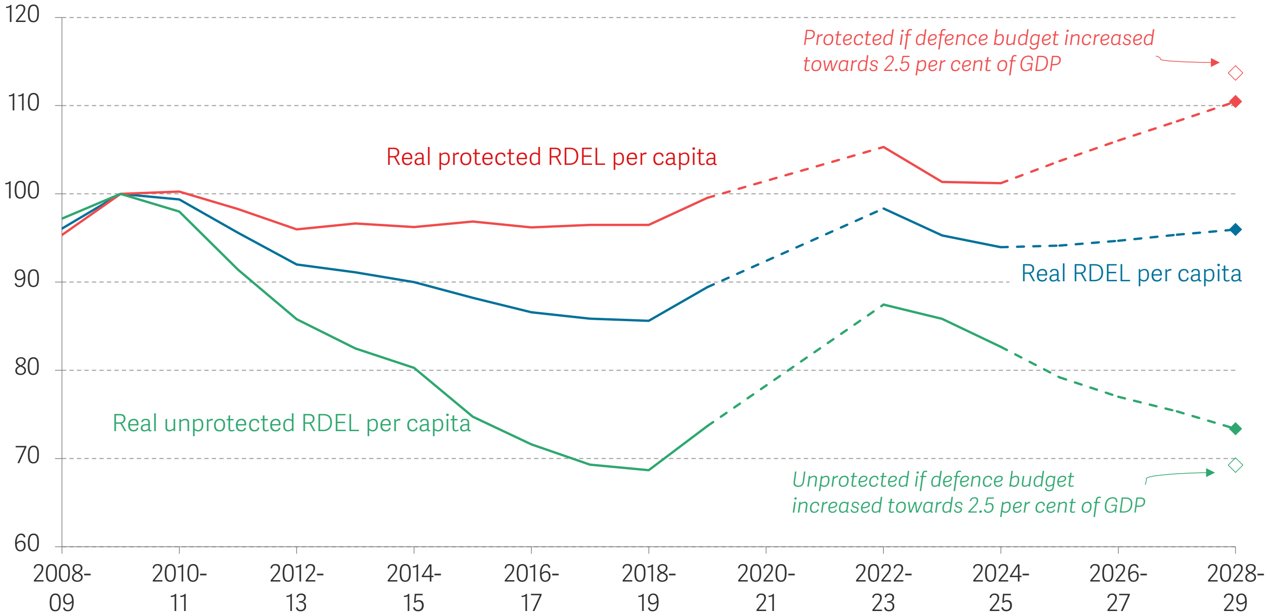
SOURCE: RF analysis of ONS, Public Services Productivity

36 ONS, Public service productivity, UK: 1997 to 2022, November 2023.

As a result, cuts of the scale currently pencilled-in look completely undeliverable. Higher prices in the short term, combined with slow growth in day-to-day departmental spending envelopes (referred to as resource departmental expenditure limits, or RDELs) beyond the current spending review, mean that unprotected departments (including Department for Levelling Up, Housing and Communities, the Home Office and Justice) will be put under increased pressure. If Health and Social Care, Overseas Development Aid (proxied by the Foreign Office), Education and Defence budgets all see spending protected, then this would imply real per-capita day-to-day spending cuts for unprotected departments of 2.9 per cent each year on average between 2022-23 and 2027-28.

FIGURE 20: **The scale of departmental cuts looks undeliverable**

Indices of real-terms per-capita resource departmental expenditure limits (2009-10=100), all departments, 'unprotected' departments and 'protected' departments



NOTES: Deflated using the OBR forecast for the GDP deflator to 2022-23 cash terms. Protected budgets include Health, Education, Defence and Foreign, Commonwealth and Development Office.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2023/ various; HM Treasury, November/ various and PESA tables.

As shown in Figure 20, this would mean cutting real per-person spending by 14 per cent over that time period (equivalent to a real-terms fall of £17 billion between 2022-23 and 2027-28), even larger than the 11 per cent figure at the time of the Budget in March. The scale of these cuts would be similar in scale to the peak years of austerity: for example, between 2009-10 and 2014-15, unprotected departmental budgets were cuts in real terms by 15 per cent per person. But the idea that there is as much scope to cut spending today as there was in 2010, given the deterioration of public services, is far-fetched.[37]

37 S Hoddinott et al., Performance Tracker 2023: Public services as the UK approaches a general election, Institute for Government, October 2023.

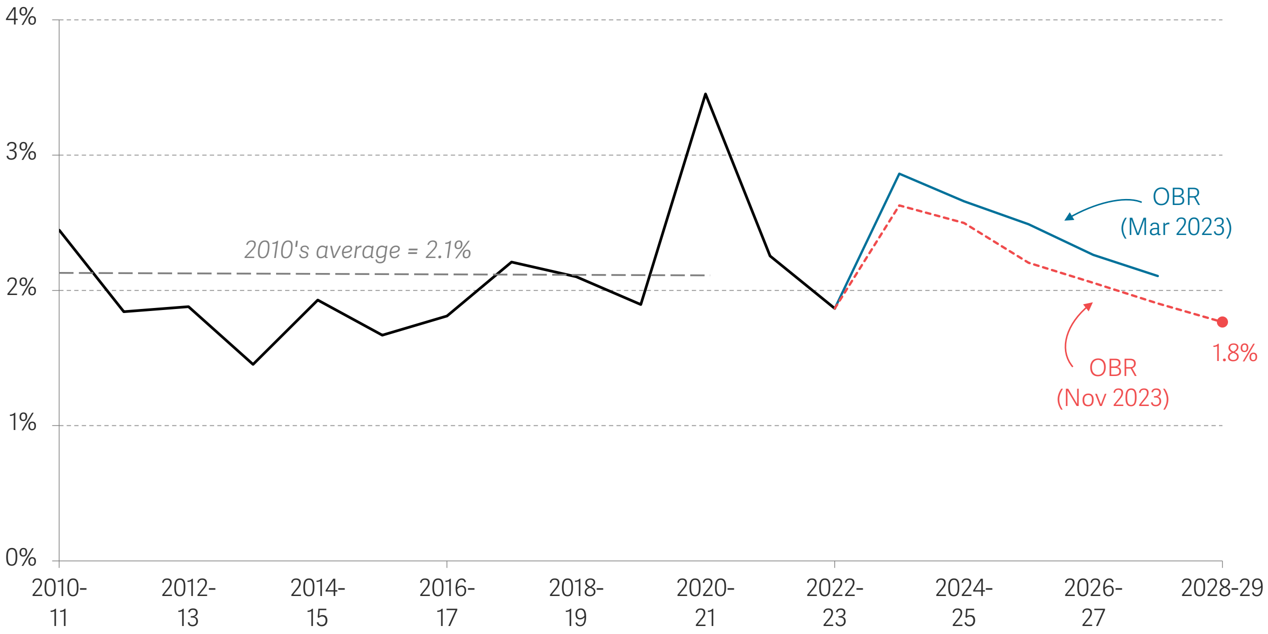
There are also, largely ignored by the Autumn Statement, the question of public sector pay pressures. Existing pay promises for public-sector workers already total £15 billion over the remainder of the Spending Review period, and this would rise by an additional £13 billion if pay rises were sufficient to close the pay growth gap with the private sector by 2024-25. This leaves departments needing to meet extra pay increases from their own budgets.

In the medium term, big cuts to capital spending are pencilled in

Despite increasing investment spending following the election in 2019, the Government last year announced plans to freeze investment levels in cash terms. Higher inflation means that policy now represents an even larger real-terms cut. As a result, public-sector net investment (PSNI) is set to fall to just 1.8 per cent of GDP by the end of the forecast period, well below the 2010s average of 2.1 percent. Between its peak in 2023-24 and the end of the forecast period in 2028-29, capital spending as a share of GDP is set to fall by one third, equivalent to a £20 billion decline in real terms (as shown in Figure 21). As we explained in Box 1, It is hard to think of a policy that will have a more detrimental impact on growth. UK public investment has remained consistently low and volatile for decades, averaging about half the average of OECD advanced economies.

FIGURE 21: **Public sector investment is set to fall below the 2010's trend**

Public sector net investment as a proportion of GDP: UK



SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; Bank of England, A millennium of macroeconomic data for the UK, 2020.

Uprating working-age benefits and housing support is welcome, but many claimants in poor health face large losses in future years

Approaching an election year, the Government has made a clear decision: to boost incomes by cutting NI at the expense of making future cuts to public services and investment. But when it comes to benefits, the Government has taken a more mixed approach, with the policy changes in this Autumn Statement actually leading to increased spending on social security benefits.

The pre-election giveaways: working-age benefits will be uprated in line with inflation next year…

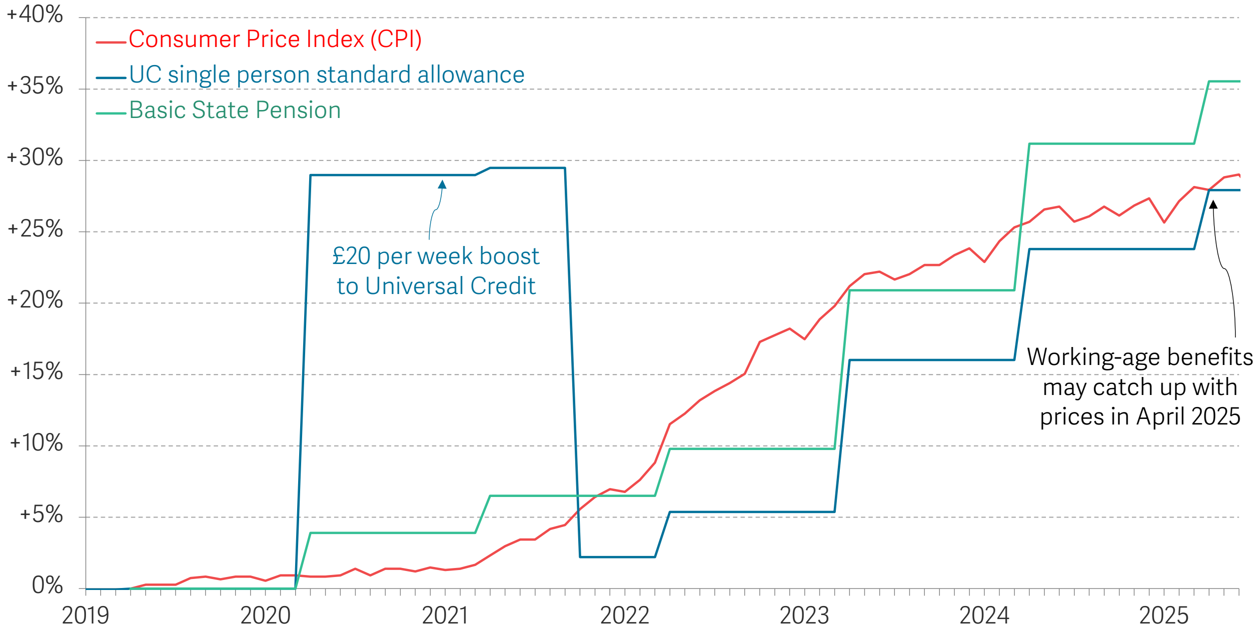
After speculation that the Chancellor might uprate working-age benefits in April 2024 in line with October's CPI (4.6 per cent), there was good news for 8 million-plus low-income households when he decided to stick with convention and increase tax credits, UC and the like by September's inflation rate (6.7 per cent). This is especially important this year for two reasons. First, inflation has been largely driven by essentials that make up a large share of lower-income families' consumption over the past two years: the cost of energy surged by 49 per cent between October 2021 and October 2023, for example, and food prices rose by 28 per cent. Second, low-income families will still feel a sting come April 2024 when Cost of Living payments that have been such a lifeline for many over the past two years are discontinued.[38]

But the full uprating of working-age benefits in 2024-25 should not obscure the fact that, with the exception of the Covid-19 period when UC was temporarily boosted by £20 a week, prices have still outpaced benefit levels over the parliament. In fact, as Figure 22 makes clear, working-age benefits are not set to regain their real pre-pandemic value until April 2025. And when we take the long view, the picture is worse still. We estimate that, on average, the lowest-income households will see their annual after-housing cost income fall by £2,700 in real terms by 2027-28 as a result of benefit cuts made since 2010.[39]

38 See: A Corlett et al., Preparing the pitch: Autumn Statement 2023 preview, Resolution Foundation, November 2023 for further details.
39 This statistic excludes changes made at this Autumn Statement. Source: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model.

FIGURE 22: **Working-age benefits are not set to recover their real pre-pandemic value until April 2025**

Change in the value of UC single person standard allowance, state pension and consumer prices since January 2019: UK



NOTES: UC standard allowance is the over-25 rate.
SOURCE: RF analysis of DWP, Abstract of Benefit Statistics; OBR, Economic and Fiscal Outlook November 2023.

... And Local Housing Allowance will be re-pegged to local rents

The Government's decision to re-peg Local Housing Allowance (LHA) rates to the 30th percentile of local rents in April 2024 – after freezing them in nominal terms at their April 2020 rates – was also very welcome: on average, private rents have risen by 12.5 per cent in the period from September 2019 (the month used to re-set LHA rates in April 2020) to September 2023.[40] The Government estimates this will benefit 1.6 million households next year who will see an average gain of £800, costing the Treasury £1.7 billion by 2028-29.

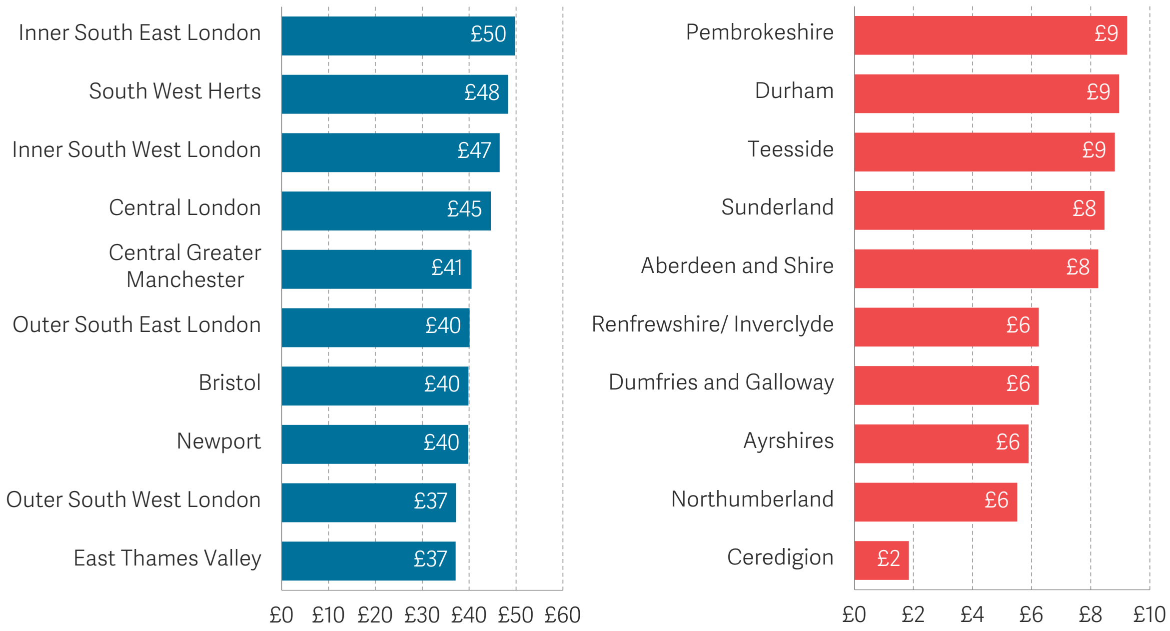
Those households living in areas where rents have increased the most since 2020 will have been those who were hit hardest by the LHA freeze, and will also be the ones receiving the biggest income boost from the LHA re-set. Full details of the new LHA rates have not been published, but we estimate that a household renting a 2-bedroom property in Inner South East London (covering boroughs such as Lambeth and Lewisham) could receive up to £50 a week extra support (see Figure 23). But it is not just families in the capital that will get a large income boost: private renters in South West Herts (including towns such as Watford and St Albans) could be up to £48 a week better

40 Source: RF analysis of ONS, Index of Private Housing Rental Prices.

off, for example, and renters in Bristol could see gains of up to £40 a week. The effect is still material even in those parts of the country where rents have grown more slowly in the past three years, such as Pembrokeshire and Durham: £9 extra a week extra is still equivalent to an income uplift of almost £470 a year.[41]

FIGURE 23: **Re-pegging Local Housing Allowance to local rents will mean substantial gains for many low-income private renters next year**

Estimated weekly increase in housing support for a two-bedroom property as a result of resetting Local Housing Allowance to 30th percentile rents: ten highest-gaining Broad Rental Market Areas (left-hand panel) and ten lowest-gaining Broad Rental Market Areas (right-hand panel), 2024-25



NOTES: Assumes that 30th percentile rents in Broad Rental Market Areas have grown in line with average rents in their region in the 12 months up to September 2023. Excludes Brecon and Radnor due to data concerns.
SOURCE: RF analysis of Local Housing Allowance rates applicable from April 2023 to March 2024; ONS, Index of Private Housing Rental Prices.

However, the Government has also said that LHA rates will be frozen beyond 2024-25, leaving state support for housing costs to 'wither on the vine' once again.[42] This 'stop-start' approach to uprating housing support puts considerable pressure on low-income private renters as local rents pull away from LHA rates: in August 2023, for example, close to two-thirds (63 per cent) of private renters claiming UC did not see LHA cover their full rent, up from just over half (53 per cent) in May 2020 when LHA was last repegged to local rents.[43]

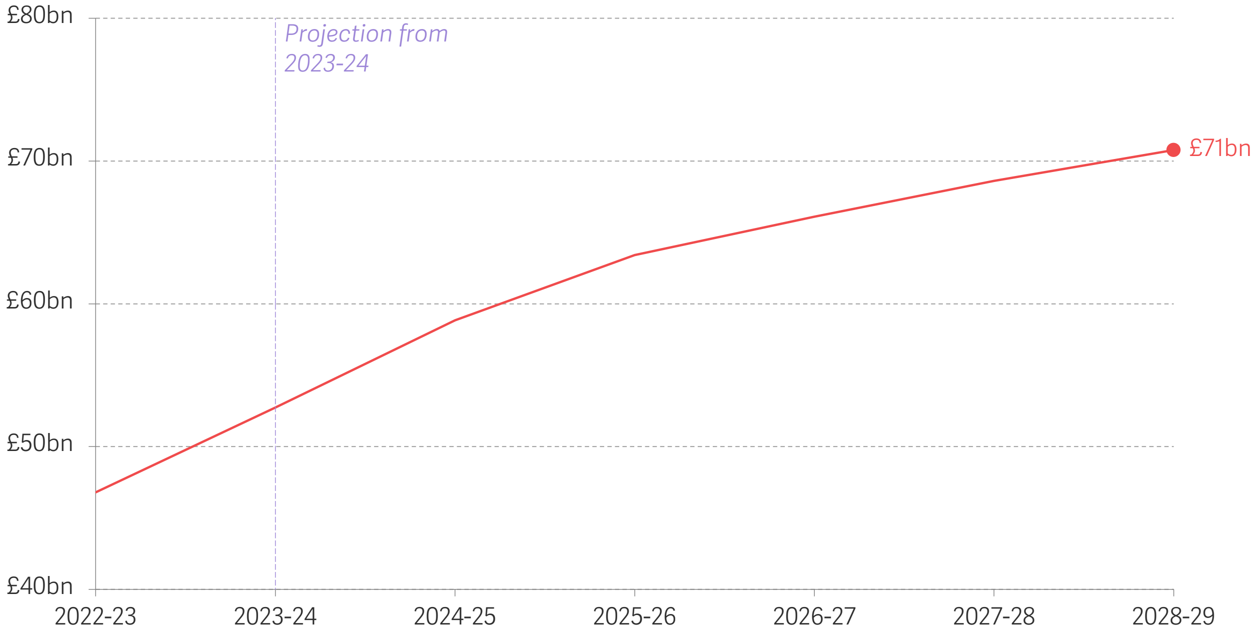
41 It is worth noting, however, that higher LHA rates will mean more households hit the benefit cap, which will not be uprated in 2024-25.
42 LHA rates were initially set at the 30th percentile of local rents in April 2011, were frozen or increased only with CPI for seven years, were reset to the 30th percentile in April 2020, and then frozen until April 2024.
43 Source: RF analysis of DWP Stat-Xplore.

The post-election take-away: cuts to health-related benefits mean those with mobility or mental-health problems could face a large benefit hit

The Government has rightly focused in recent months on tackling the growing issue of inactivity due to ill health. With a record-high 2.58 million working age adults too unwell to work, spending on working-age health and disability benefits has increased dramatically as caseloads have grown and inflation has driven up the cash value of awards. As Figure 24 shows, spending on working-age health and disability benefits is now set to be £71 billion in 2028-29, 51 per cent higher than in 2022-23 in real terms. But there was some good news hidden in the details at the Autumn Statement: the OBR revised down its caseload expectations for future years, as it anticipates fewer people making claims for disability and incapacity benefits as cost of living pressures abate.

FIGURE 24: **Spending on working-age health and disability benefits is set to rise by 51 per cent between 2022-23 and 2028-29**

Spending on working-age health and disability benefits, in 2023-24 prices: UK



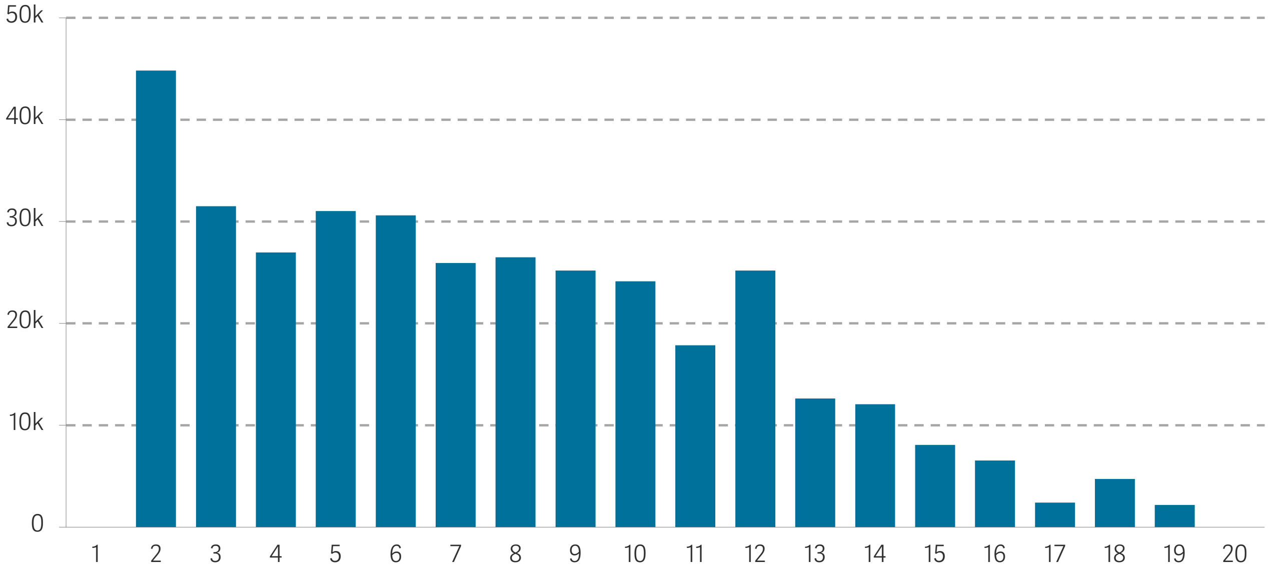
NOTES: GDP-deflated to 2023-24 prices.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2023.

In light of this dramatic rise in welfare expenditure, the Chancellor announced details of changes to the Work Capability Assessment (WCA). These will making it harder for some new claimants with health conditions relating to their mobility or mental health to receive additional support through Universal Credit or Employment and Support Allowance (ESA) from 2025 onwards.[44]

These changes are expected to save the Government £1.3 billion in 2028-29, but savings for the Treasury mean losses for some households, and low-income ones at that. Tightening up the WCA criteria will mean fewer claimants are placed in the Limited Capability for Work Related Activity (LCWRA) group, which results in their benefit income being reduced by £390 per month – or £4,680 per year. As shown in Figure 25, it is low-to-middle income households who will lose out: three-quarters (75 per cent) of the households affected come from the lower half of the income distribution.

FIGURE 25: **Low-to-middle income households will lose out as a result of changes to the Work Capability Assessment**

Estimated number of adults receiving Employment and Support Allowance or Universal Credit who will lose support due to changes to the Work Capability Assessment, by income vigintile: UK, 2028-29



NOTES: The first vigintile is excluded due to data uncertainty.
SOURCE: RF analysis of DWP, Family Resources Survey; DWP, Households Below Average Income; OBR, Economic and Fiscal Outlook, November 2023.

44 There are three broad changes to the WCA: removing the 'mobilising' descriptor; amending the 'getting about' descriptor; and amending the 'substantial risk' regulations so that it only applies in exceptional circumstances, for example when people are in crisis or have an active psychotic illness. The changes are set out in more detail in: DWP, Government Response to the Work Capability Assessment: Activities and Descriptors Consultation, 22 November 2023. These changes follow a consultation that was launched in September 2023. For further details, see also: L Murphy, Reassessing the Work Capability Assessment: What might the proposed changes to the Work Capability Assessment mean for low-to-middle income families?, Resolution Foundation, September 2023.

Unlike some previous disability benefit reforms, we should be confident that this reform to the WCA will save money. It was presented by the Chancellor as a way to strengthen work incentives, rather than as a cost-cutting measure, but it will do so only in the crude sense of making households poorer to begin with, rather than boosting their incomes when they move into work. Indeed, the OBR expects the impact of changes to the WCA on labour supply to be relatively small: while around 370,000 people are expected to lose support by 2028-29, employment will be raised by only 10,000.[45] And, although the changes to the WCA have been justified by post-pandemic increases in remote working, we should take care not to overstate the extent of this change: those with disabilities are not especially likely to work from home, and less than one-in-ten low-paid workers (8 per cent) worked mainly from home in the second quarter of 2023.[46]

The 'Back to Work Plan' relies on both the 'carrot' and the 'stick'

These changes to the WCA come alongside the pre-announced 'Back to Work Plan', to encourage people with long-term health conditions to find and remain in employment.[47] The plan includes some welcome investment in general mental health support (such as NHS Taking Therapies) as well as in more specialist employment support for people out of work due to ill health (via Universal Support and Individual Placement and Support). These policies together are expected to boost labour supply in 2028-29 by 35,000.

But the 'Back to Work Plan' also included changes focused on increasing employment among those who are long-term unemployed. The approach was to combine 'carrot' and 'stick'. As an example of the former, the Restart Scheme – an employment support scheme first introduced in the wake of the Covid-19 pandemic – will be extended for two years until June 2026, and will apply to those who are in receipt of UC and have been unemployed for six months or more. But there was also tough talk from the Chancellor, who announced a stricter sanctions regime. However, the number of people affected will be small: just 5 per cent of UC sanctions are for six months or more, and more than four-in-five (84 per cent) of UC claims include additional elements, for example reflecting housing costs or the presence of children that would exempt them from these stronger sanctions.[48] It was also notable that the OBR did not attempt to estimate the impact of this stricter sanctions regime on employment and labour supply when making its growth forecasts.

45 The Government published a full response to its recent consultation to changes to the Work Capability Assessment, see: DWP, Government Response to the Work Capability Assessment: Activities and Descriptors Consultation, 22 November 2023. In the response, they also outline changes to WCA reassessments. From 2025, most claimants in receipt of the LCWRA element will not face any WCA reassessment, which the Government hope will encourage more people to consider a move into employment.

46 L Murphy, Reassessing the Work Capability Assessment: What might the proposed changes to the Work Capability Assessment mean for low-to-middle income families?, Resolution Foundation, September 2023.

47 The 'Back to Work Plan' was formally announced last week. See: News story: Employment support launched for over a million people, 16 November 2023.

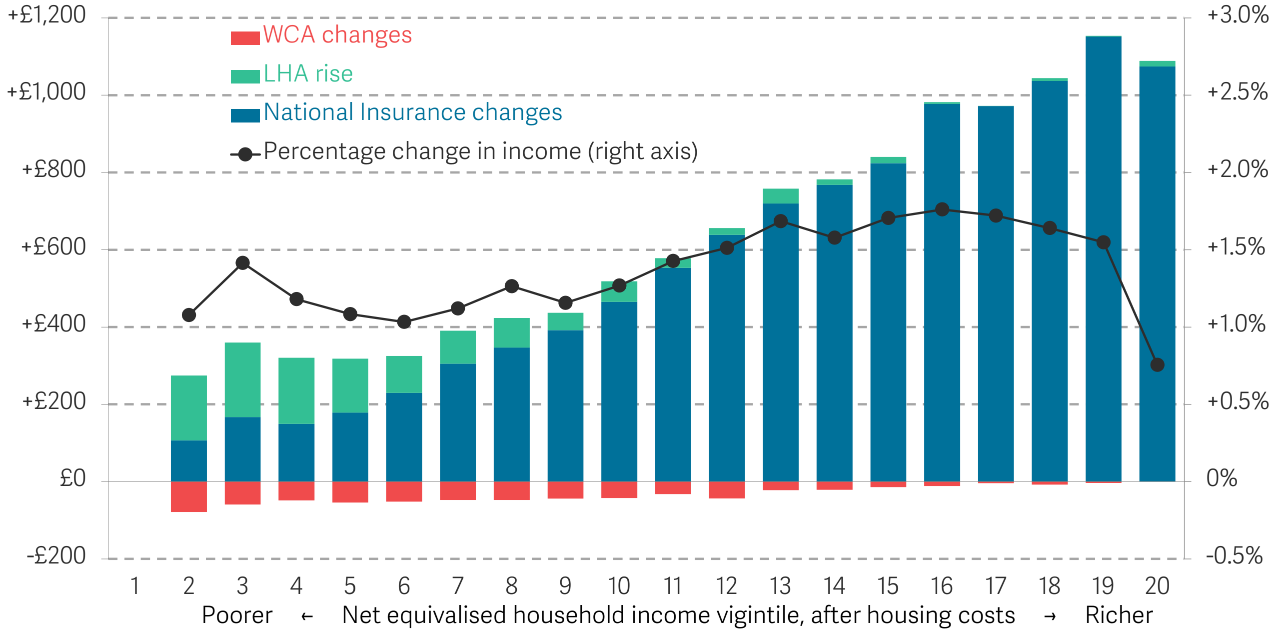
48 RF analysis of DWP, Stat-Xplore; DWP, Benefit sanctions statistics to January 2020, 10 June 2021.

The conclusion? This Parliament is set to be the worst on record for income growth

An enduring theme of yesterday's Autumn Statement was that it was full of giveaways ahead of an election year. In Figure 26, we show the medium-run impact of all the new personal tax and benefit measures announced. Overall, households across the distribution will see their incomes increase as a result of changes in the Autumn Statement: we estimate the typical household will be £500 better off in 2027-28, an income boost of over 1 per cent. But the gains are far from evenly shared. Those in the richest fifth of households will be £1,000 better off on average in 2027-28 from these changes (reflecting the National Insurance cuts), much higher than those in the lowest fifth, who look set to gain by just over £200. Support for low-income households with rents softens the regressive picture, although some of this gain is offset by changes to the WCA. Half of households in receipt of LHA also contain someone with a disability, suggesting many of the same households may win from one policy change but lose from the other.[49]

FIGURE 26: **Measures in the Autumn Statement boost incomes of middle- and high-income households more than those lower in the distribution**

Impact of permanent tax and benefit policies announced at the Autumn Statement 2023, by income vigintile: UK, 2027-28



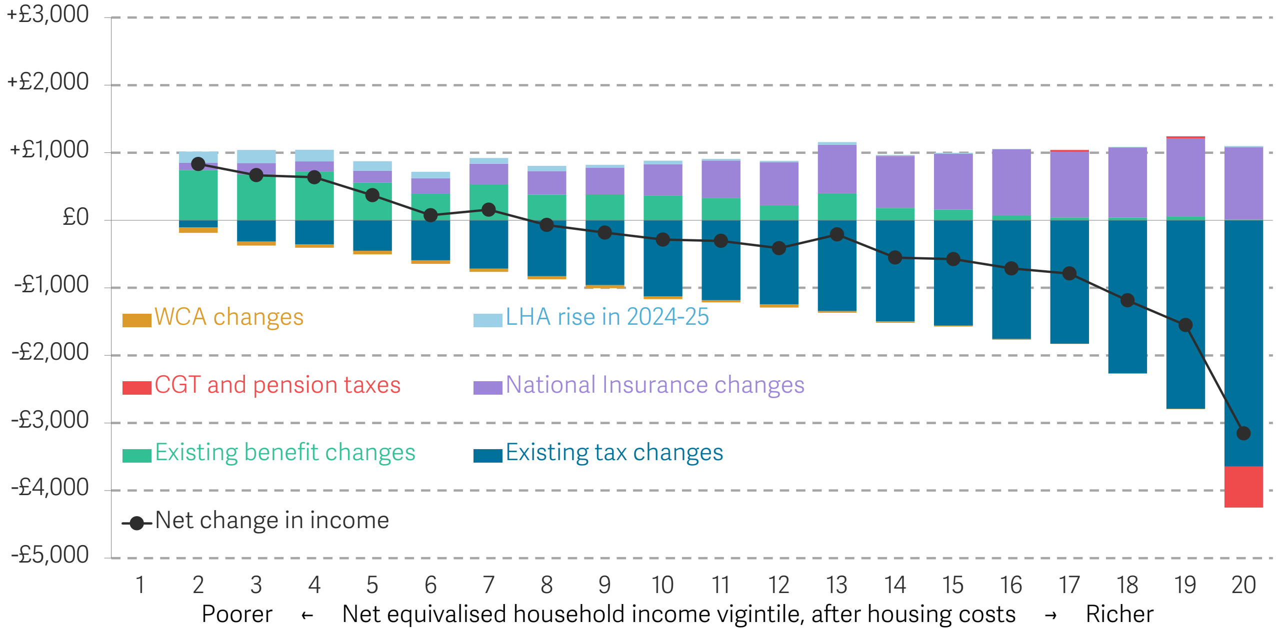
NOTES: Data is shown in 2024-25 prices. National Insurances changes include cutting the main rate of Employee NI by 2p, cutting Class 4 NICs by 1p, and abolishing Class 2 NICs. LHA was increased to the 30th percentile of local rents. WCA changes refers to changes made to the Work Capability Assessment to make it harder for people with certain disabilities to access support.
SOURCE: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model.

49 Source: DWP, Benefit uprating: Estimated number and type of families and individuals in families benefiting from the uprating of benefits in 2024 to 2025, November 2023.

When we consider the effect of all tax and benefit changes announced over the course of the whole parliament on household incomes, however, the picture inverts (see Figure 27). Now, the combined effect of all policies is that large numbers of households will see their incomes reduced in 2027-28. Already-announced tax rises (specifically, the personal tax threshold freezes) dominate, and put downward pressure on middle and high-income households the most, meaning that incomes fall for middle and high-income households, despite cuts made to National Insurance in the Autumn Statement. Taking all personal tax and benefit measures announced in this parliament together, the top half of the income distribution are set to lose £900 in 2027-28 on average, and the richest fifth of households are set to lose £1,100 on average. Conversely, policy changes boost incomes for low-income households, reflecting changes to the benefit system. The bottom half of the income distribution are set to gain £200 in 2027-28, and the poorest fifth of households £700 on average.

FIGURE 27: **The tax and benefit changes announced at Autumn Statement have only a small effect on household incomes compared to previous policies in this parliament**

Impact of permanent tax and benefit policies announced this Parliament, by income vigintile: UK, 2027-28

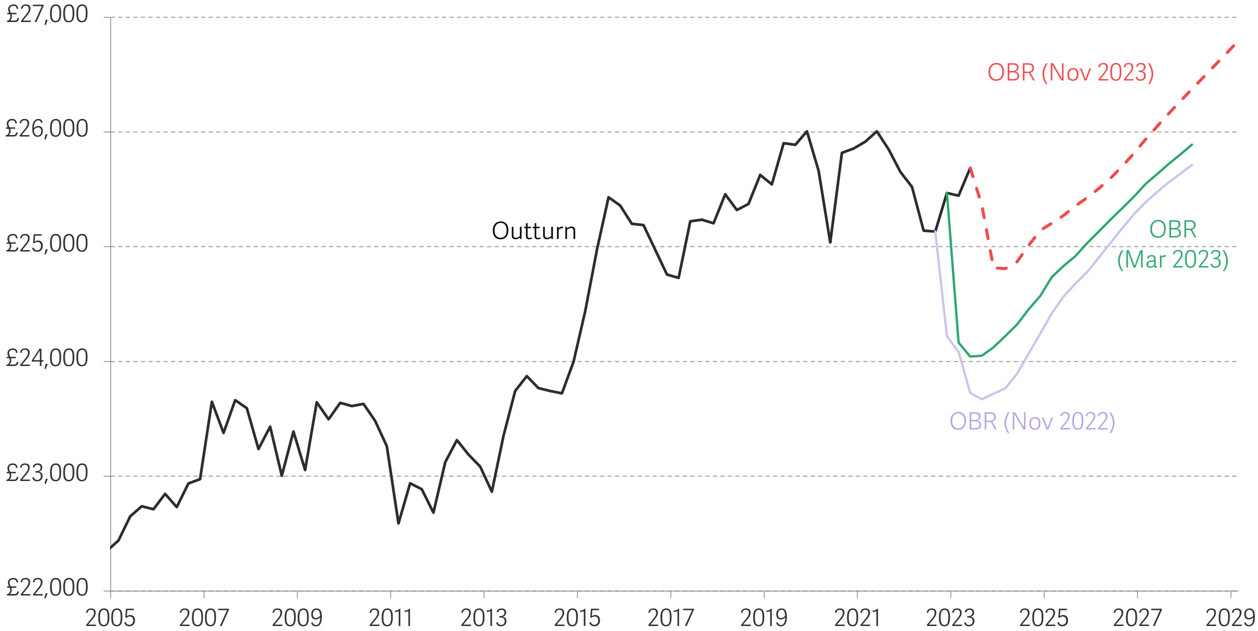


NOTES: Data is shown in 2024-25 prices. National Insurances changes include cutting the main rate of Employee NI by 2p, cutting Class 4 NICs by 1p, and abolishing Class 2 NICs. LHA was increased to the 30th percentile of local rents. WCA changes refers to changes made to the Work Capability Assessment to make it harder for people with certain disabilities to access support. CGT and pension tax changes includes change to Capital Gains Tax entrepreneurs' relief, reduction in CGT exempt amount, and increase to annual allowance and abolition of lifetime allowance in pension taxes. Existing benefit changes includes the uprating of Pension Credit with CPI in 2023-24, the cut in the taper rate, increase in work allowances, increase in LHA rates to the 30th percentile of local rents in 2020-21, the 7 per cent uprating of social rents in 2023-24, benefit cap uprating in 2023-24, and higher caps for UC childcare. Existing tax changes includes Income Tax threshold freezes, National Insurance threshold rise and subsequent freeze, Income Tax additional threshold reduction, increase in dividend tax rates and reduction in dividend allowances.
SOURCE: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model.

It is no surprise, then, that the overall living standards outlook for households remains very poor, even if better than the OBR projected in March this year (see Figure 28). Real household disposable income (RHDI) per person is expected to increase slightly in 2023 (by 0.3 per cent), but strikingly, the OBR expects it to then fall by 1.5 per cent in 2024. This is truly notable — the last time RHDI per person fell in an election year was 50 years ago, in 1974.

FIGURE 28: **Real household disposable income is forecast to fall in the election year 2024**

Average real household disposable income per person (2023 prices): UK

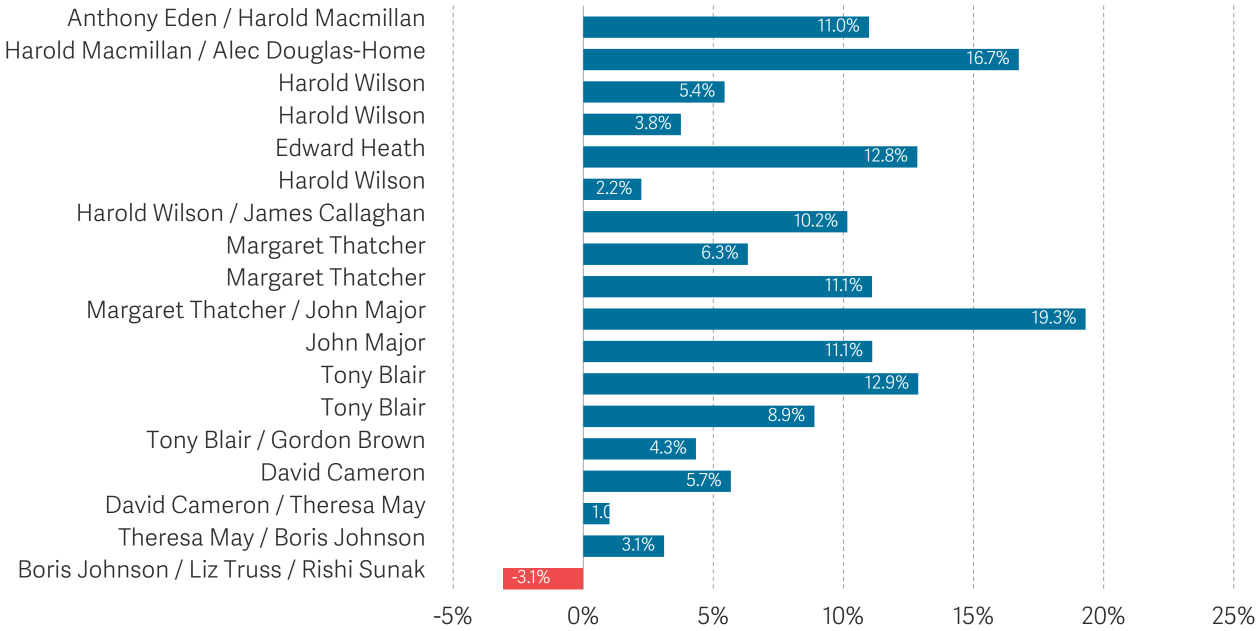


NOTES: Includes non-profit institutions serving households (NPISH). ONS national accounts data has been revised slightly since the March 2023 OBR forecasts.
SOURCE: ONS; OBR, Economic and Fiscal Outlook, various.

Finally, Figure 29 brings home the distressed state of the country's living standards. As the chart makes plain, this current Parliament is the worst on record for household income growth, with incomes projected to fall by 3.1 per cent from December 2019 to January 2025. That makes this the only Parliament that has seen an overall decline in real household incomes (the next worse being that of 2015-17, which saw growth of 1.0 per cent).

FIGURE 29: **This Parliament looks set to be the worst on record for household income growth**

Total growth in per capita real household disposable income, by Parliament



NOTES: Includes non-profit institutions serving households (NPISH).
SOURCE: ONS; OBR, Economic and Fiscal Outlook, various.

The challenges facing Britain in the 2020s might make things difficult for policy makers, wrestling as they must with the testing interaction between the economic and political cycle. But those challenges have also made things far more difficult for households: this is what a living standards disaster looks like.

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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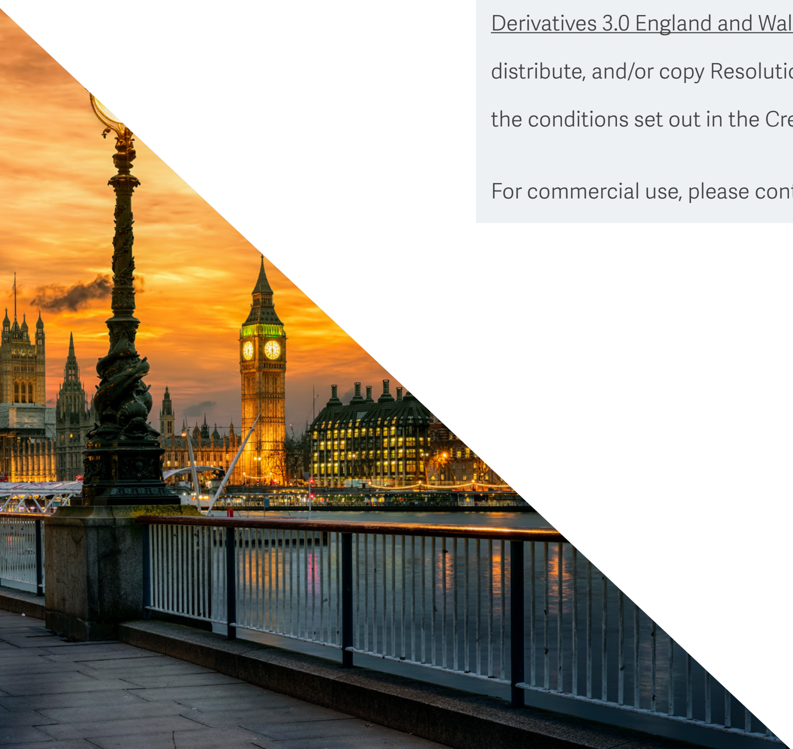

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