November 2023

Autumn Statement

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Our analysis

Last week, Chancellor of the Exchequer Jeremy Hunt delivered his Autumn Statement. Now that most of the dust has settled, we would like to offer our analysis of some of the main announcements for the technology, financial services, and energy and manufactory sectors.

Most commentators would agree that Hunt's decision to cut taxes rather than consolidate public finances was politically loaded and dictated by two main concerns: keeping the right wing of the Conservative Party at bay and producing positive headlines ahead of the General Election.

According to the *Institute for Fiscal Studies* (IFS), the sizeable permanent tax cuts announced last week "*are smaller than the tax rises announced since 2021 and therefore the tax burden is still forecast to continue rising to record UK levels*".

The narrative went like this: we managed to halve inflation as promised (from 11.1% to 4.6%) and borrowing and debt are falling. Labour will trash the economy, but you can trust us.

Unfortunately for the Chancellor, the Office for Budget Responsibility's (OBR) post-measures forecasts were less optimistic. If anyone is keen, here is their response in full. For those who are less inclined to go through it, we can roughly summarise it as follows:

- The tax cuts and the package of welfare reforms will provide "a modest boost to output of 0.3% in five years".
- Living standards are forecast to be 3.5% lower in 2024-25 than their pre-pandemic level: "While this is half the peak-to-trough fall we expected in March, it still represents the largest reduction in real living standards since Office for National Statistics (ONS) records began in the 1950s".
- Annual growth in the economy from 2024 to 2027 is now forecast to average 1.5% per year, compared with 2.1% per year in March.

The Bank of England also expressed concerns and warned against underestimating the persistence of UK inflation.

However, the tax cuts for businesses could have a real - although more modest than the Government wants people to believe - impact on investment and growth over the medium term.

> Paul Johnson, Director, Institute for Fiscal Studies
>
> "Announcing immediate and certain tax cuts in response to highly uncertain changes in assumptions about the UK's medium-term economic prospects is not a recipe for good management of the public finances."

For example, announcements around the "full expensing" (permanent 100% capital allowance) cut to corporation tax were generally welcomed as measures focused more on medium-term growth. The CBI and other businesses in general have been campaigning for this, and the Labour Party supports it too. We will break down some of the most relevant announcements below in this report.

Overall, while some measures, including the reforms on pensions, planning and public-sector productivity, are welcomed, the Autumn Statement is far from representing a shift to the long-term strategy that the Government claims.

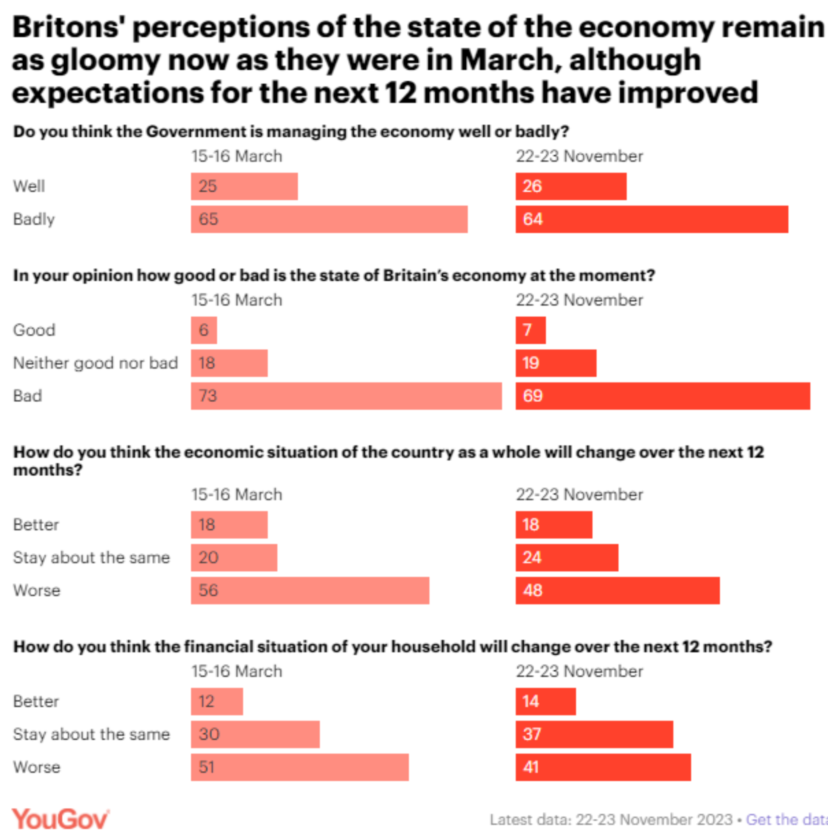
An early General Election?

Speculations around a date for the next General Election have resumed particularly because measures such as the cut to the main rate of National Insurance will come into force in January rather than April, which would be more typical.

We believe that the Government will not call for an election in May. This is why.

A recent YouGov survey for *The Times* suggests the Autumn Statement gave the Conservatives a four-point boost among voters but the Labour Party is still leading by 19 points. However, people remain negative about the state of the economy.

The Government continues to face challenges that can impact its credibility.



At the last Party Conference, the Prime Minister scrapped the northern leg of the HS2 and replaced it with Network North, promising £36 billion to build it. This week, the *Financial Times* reported that Sir John Armitt, chair of the National Infrastructure Commission, said that some costings of the new project seemed to have been "*plucked out of the air*".

It has become increasingly hard for the Prime Minister and his Cabinet to carve a narrative that would help restore people's trust because he is trying to distance himself both from Truss' reckless tax cuts and Labour's plans for borrowing.

Immigration represents a permanent headache for him and, alongside the economy, is going to be the election campaign's leading issue. According to the Office for National Statistics (ONS), UK net migration in 2022 has been revised up to 745,000 from a previous estimate of 606,000. This, along with the challenges raised by the Rwanda judgment, is making it extremely hard for Rishi Sunak to show progress on the Conservative Party's pledge to cut migration. To add to that, Reform UK, the former Brexit Party led by Farage, is expected to erode some Conservative votes (as well as some Labour ones), exposing the party to defeat on issues such as immigration.

This means that the Government will try to buy as much time as possible to demonstrate that it can fulfil its pledges, given that challenges related to immigration and the economic outlook are not going to improve over the next couple of months.

Should the Labour Party win the election in 2024, it will inherit a far from robust economy and public finances. The IFS Director, Paul Johnson, said: "*The fiscal forecasts have not in any real sense got better. Debt is not declining over time. Taxes are still heading to record levels. Spending is also due to stay high by historic standards […]. I'm not sure I'd want to be the chancellor inheriting this fiscal situation in a year's time*". Labour has basically signed up to Hunt's cuts to public spending, leaving them with some tough decisions about how they can justify spending and investment in some of the changes they would like to make.

What's next

- All changes to tax arrangements announced in an Autumn Statement must be approved via a Finance Bill, which is currently going through Parliament.
- This week, the Treasury Select Committee is hosting three hearing sessions to further question the Chancellor and relevant stakeholders, and it will produce a report either before or immediately after Christmas. The Government's response is due within two months after that.
- The Spring Budget, the next big fiscal event, will take place in March 2024 and we can expect announcements about more substantial tax cuts.

How organisations can engage ahead of the General Election

We discussed some initial recommendations and a likely timeline for engagement in our recent blog here. For those organisations willing to feed into the making of the Spring Budget, this is also a good time to engage as the Treasury will start holding conversations with stakeholders and other government departments soon.

Overall, any organisation able to help the existing Government or a future Labour one to improve productivity, particularly when it comes to the public sector, would be more than welcome by both parties and is likely to receive attention and time.

Technology & Manufacturing

Main measures to support the UK's technology and manufacturing sectors:

AI The Government has committed a **further £500m over the next two years** into innovation centres for AI. This brings the total planned investment into AI innovation to more than £1.5bn, following centres in Edinburgh and Bristol.

Five quantum missions to accelerate the development and application of quantum technologies. Among the quantum missions announced is a goal to **have accessible, UK-based quantum computers capable of running one trillion operations by 2035**, as well as pledges to help the NHS and critical infrastructure providers benefit from the exponential increase in compute power quantum systems could offer.

Manufacturing investment The Chancellor announced **£4.5 billion of support over five years** to attract investment in strategic manufacturing investments available from 2025. This will include £2 billion in support for zero-emission investments in the automotive sector, £975m for aerospace and £960m for clean energy.

Julian David, CEO, techUK

"Encouraging the adoption of digital and AI technologies among small businesses will be of huge importance to our future growth and productivity and therefore the newly announced Digital Adoption Taskforce needs to deliver. This Statement has significant potential to boost investment from the tech sector. However, with low growth forecasts, there is no room for mistakes and no time to lose. The Government needs to work at pace alongside the tech sector to put these policies into action and get growth going."

Research and Development (R&D) tax reliefs The Government plans to **merge the current R&D Expenditure Credit (RDEC) and small or medium enterprise (SME) R&D schemes starting April 2024**. This adjustment is expected to enable around 5,000 additional SMEs to qualify for an enhanced rate of relief. Businesses can also deduct the cost of investing in machinery and IT equipment from their tax bill permanently.

Dr Hilary Leevers, Chief Executive, EngineeringUK

"The Chancellor highlighted the importance of skills in his autumn statement, yet there was little to address widespread issues in the skills systems. We welcome the modest announcement of £50 million for engineering apprenticeships, but are concerned that this is limited to a two-year pilot to explore ways to stimulate training in these sectors and address barriers to entry in high-value standards... We urge the government to take a bolder approach."

Skills The Chancellor announced a **£50 million commitment** to boost skills and apprenticeships in engineering and other key growth sectors.

Venture Capital Skills Fellowship Programme A **£3 million fellowship programme scheme** to develop a new generation of science and tech venture investors in the vanguard of science and tech such as vaccines, AI and robots.

Environment, Energy & Infrastructure

While a much lower stakes affair on environmental issues than may have been anticipated, the Autumn Statement unveiled a few measures that will support the UK's efforts to decarbonise. These come despite policy rollbacks from the Government on the headline net-zero commitment back in September. However, while partly driven by a strong need for energy independence, the new policies are more likely a direct result of campaign considerations with an election looming, and a cost-of-living crisis at the top of the agenda.

Experts have warned that the UK risks falling further behind as the US continues to deliver its Inflation Reduction Act, and the EU steams ahead with its Green New Deal with both shaping their economic policy around green initiatives. There was little by way of milestone announcements in the Statement, with onshore wind still prohibited, and no new major rebates for those upgrading their energy efficiency.

With the election timing up in the air, the Government may be saving their response to the latest rise in energy bills for the right political moment.

Dan McGrail, Chief Executive, RenewableUK

"The chancellor has been clear that the green industries growth accelerator is for strategic industries, targeted to unlock maximum private investment where the UK can be competitive – and there couldn't be a better fit for that than offshore wind and renewables. With the right support, the likes of which we've seen from government today, industry estimates that the offshore wind supply chain alone could boost the UK's economy by £92bn by 2040."

Electricity grid The Government has reaffirmed its commitment to run the National Grid entirely by low-carbon energy by 2035. It will halve the time it will take for renewable energy projects to access the grid through a reform of the existing queue system, which will now prioritise renewable energy (Transmission Acceleration Action Plan).

Planning reform The changes to the new transmission infrastructure require simultaneous changes to the planning policy, which will be streamlined to accommodate the new initiative. The national policy statements (NPSs) for energy, water, and national networks would be reviewed at least every five years. The aforementioned manufacturing funding will also be used to ensure domestic access to renewable energy, particularly for new homes.

Green Growth Accelerator The Statement repeated the Treasury's commitment to a £4.5bn fund for strategic manufacturing sectors, of which nearly £1bn is portioned out for energy supply chains including carbon capture utilisation and storage (CCUS), hydrogen, nuclear and wind power. There was little by way of new funding support for battery projects, despite this being a policy priority earlier this year.

Oil & gas licenses In support of the Offshore Petroleum Licensing Bill, the Treasury announced a package of measures to set out its short, medium and long-term plan to support investment in oil and gas through the tax regime.

Financial Services

Representing 12% of the economy and employing around 2.5 million people, the financial services industry is an essential growth sector for the UK. This year's Autumn Statement addressed a number of measures to help maintain the 'world-leading' status of the UK's financial services, providing a platform for the Government to outline its plans going forward. Below we set out some of the most relevant announcements for the industry.

Building a best-in-class regulatory environment The government committed to delivering a Smarter Regulatory Framework (SRF) for financial services, which looks to repeal retained EU law relating to the sector. The framework was set out in the Financial Services and Markets Act (FSMA) 2023 earlier this year. With this move, the Government aims to ensure that the UK continues to both solidify its position and grow its world-leading financial services regulatory environment after Brexit.

The Government also announced that it will introduce new legislation to replace the current EU Prospectus, Securitisation, and Data Reporting Services Regulation regimes. The legislation also seeks to replace the EU Short Selling Regulation (SSR) – including areas around sovereign debt. Given the interconnected nature of the global financial system, it is essential that the Government continues to work closely with its partners in Europe and across the world to mitigate risks to financial stability and maintain its high standards.

The Future of Payments Review This report presents an overarching methodology for streamlining the payments landscape to improve strategic cohesion across the industry. Although certain individual initiatives have offered promise in isolation, there must be a clearer vision for what the future of payments looks like so that stakeholders can collaborate with shared objectives in mind. Regarding Open Banking, the report emphasises the need for improved consumer protection, as well as the development of alternative payment journeys for merchants. When it comes to fraud, it calls for greater prioritisation of preventing crime at the source as opposed to focusing on punitive action. The government also plans to move away from the payment authentication rules imposed by the EU.

David Postings, Chief Executive, UK Finance

"These are challenging times for the county and the Chancellor has had to take some tough decisions. A strong and internationally competitive banking and finance sector has a key role to play in supporting the economy through the current challenges."

Digital Securities Sandbox (DSS) The Treasury published a response to its consultation on the DSS proposal. The initiative, run by the Bank of England and the Financial Conduct Authority (FCA), will encourage the increased adoption of digital assets into the UK financial markets by allowing new participants to provide settlement and trading infrastructure for digital securities. The DSS would facilitate equity securities, debt securities and money market instruments. In addition, the Bank of England will allow for the application of instruments that are denominated in currencies other than Sterling.

About FINN Partners

Our team of specialists has worked with the UK government, regulatory bodies, local authorities as well as the EU Commission and Parliament. We have experience across multiple sectors including energy, manufacturing, built environment, financial services, technology and internet regulation, professional services, NGOs and charities, sustainability and ESG. Our corporate communications and global intelligence teams are also an integral part of our integrated offer to clients.

Please do get in touch if you have any questions or would like to discuss how the public affairs team can support your business ahead of 2024.

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