Autumn Budget 2024

H/Advisors Cicero Analysis

30 October 2024

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The longest Budget Statement in history?

Some may say that Rachel Reeves began her Budget Statement on a Sunday morning media round on May 26th and has continued it for over 22 weeks. While the pre-briefing of the Budget before today may have irked Mr. Speaker, it has the advantage that much of this analysis could be written in advance.

The first significant announcement of this Budget was made on that day during the election campaign: a "tax lock for working people" – a pledge not to raise rates of income tax, national insurance, or VAT. Labour's manifesto also promised to cap corporation tax at 25% for the duration of the Parliament – backed today with a business tax roadmap. It didn't take Holmesian deductive powers to figure out where Labour would look for additional revenue: taxes on wealth and the wealthy (inheritance tax, capital gains tax, carried interest, non-doms), taxing more items (VAT on school fees), or taxes on employers (NICs).

And here we are. The Chancellor matter-of-factly told the House today the tax rises will amount to £40bn – of which an enormous £25bn will come from employers paying more NICs and the rest from tweaks and twiddles all over the place on everything from Inheritance Tax on AIM stocks to increased Air Passenger Duty on private jet flights.

The second major policy was one for the wonks and bond traders – the Chancellor's statement of her fiscal rules, which appeared in the Financial Times last week. First, the stability rule: day-to-day spending must be matched by revenues. She said today that the Government wanted to reach surplus by 2027/28.

Second: the investment rule will ensure net financial debt falls as a proportion of GDP. The Guardian scooped that the Treasury would adopt a new method of calculating the public sector balance sheet: Public Sector Net Financial Liabilities. That was confirmed today. This will allow for greater Government borrowing to fund investment. Some analysts had suggested this could free up to £50bn. However, today's OBR projections put the headroom at just £15.7bn in the final year of the forecast. Nevertheless, this is a significant change in public sector accounting which potentially gives the Government more room for manoeuvre in the years to come.

Today, then, is the culmination of the delicate dance the Labour Treasury has been performing over the last few weeks if not months. It wants to significantly boost capital investment through borrowing more – a clear break from the Tory past. To do so affordably, it must keep bond markets onside. Reeves – cognisant of the fact the Government needs to issue £300bn of debt in 2024 – has been constantly telegraphing her intentions about taxes, borrowing and spending so as not to spook investors.

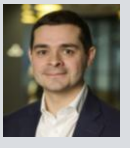
Nevertheless, markets have demanded higher yields on UK debt in recent weeks, concerned about the risks of a debt surge. UK borrowing costs remain significantly higher than those of France and Germany. At the time of writing, 10-year gilt yields were rising as markets digested the implications of the budget. If this doesn't reverse, it could prove highly problematic for Reeves' plans.

But what does it mean for those of us who are not sovereign debt traders? My colleagues have set out their analysis on the implications for business over the next few pages and we round up the views from business organisations too.

There's big money today for health, transport and the Home Office as the Government targets those areas that have the biggest impact on everyday voter priorities. The medium-term political challenge is whether this Government can demonstrate to voters the benefits of its strategy before the public tires of near-European levels of taxation without (yet) any smooth tarmac or shiny hospitals.

If we take Keir Starmer's suggestion that tax rises are being implemented early in the Parliament at face value, the heavy lifting for the rest of the Parliament will need to be done by making the Government's existing spend work harder. This means a raft of measures aimed at getting people off welfare and into work, reducing fraud and tax avoidance and boosting the public sector's woeful productivity. But other big questions remain such as reforming adult social care funding, which is needed if the alarming rate of local authority bankruptcies is to abate. This is difficult and time-consuming work, with responsibility spread across the whole of Government.

The Government says it laser focussed on delivering growth. The OBR's projections for UK growth today are less than stellar. But for all that, we must remember that while Chancellors control many things, the most consequential factors impacting the growth of the UK economy in recent years have been external. The economic shocks of Covid and the war in Ukraine have framed the economic reality in which we now live as much as Rishi Sunak and Jeremy Hunt. With the US election next week, that is truer than ever.



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Drawing lines

Iain Anderson
Chairman
Labour perspective

"This Budget marks a turning point with many firsts: it's not only the most anticipated Budget in recent memory but also the first delivered by a female Chancellor. Some may even call it the "end of austerity." This Budget signals a clear choice to ramp up investment in public services, especially the NHS, and includes record-breaking devolution packages for Scotland and Wales.

SMEs are protected, while the "broadest shoulders" in business—larger corporations—will shoulder much of the £25bn tax increase, which creates promising partnerships to drive economic growth. Contrary to speculation, the much-discussed "super taxes" on capital gains, pensions, and inheritance didn't materialise, with the Chancellor's commitment to fiscal stability well-received by markets.

Ultimately, this is a massive Budget, signalling a new national direction where public investment takes priority, ushering in a transformative era for the UK."

Sonia Khan
Partner
Conservative perspective

"Conservative Party leader Rishi Sunak sharply criticised Labour's Budget, accusing the Government of misleading voters with pre-election tax promises while concealing plans for future tax hikes.

Likening Labour's policies to "French-style" regulations, Sunak argued these would saddle businesses with an extra £5bn in costs, disproportionately harming small businesses. He warned that employer National Insurance changes, raising £25bn would hit workers through reduced pay and pension contributions, while higher taxes on jobs and enterprise could stifle investment.

With an OBR growth downgrade, Sunak cautioned that Labour's approach risks eroding business confidence and overburdening the current economy."

Lizzy Tomlin
Partner & UK Public Affairs Lead
Liberal Democrat perspective

"The Lib Dem Leader Ed Davey warmly welcomed aspects of the Budget and struck a friendly tone when congratulating Reeves as the first female Chancellor. The fiscal event addressed three main campaign priorities for the Party – business rates, the carer's allowance and NHS funding – but failed to address the social care crisis and plans to repair the UK's relationship with Europe.

The Party is walking a difficult political tightrope in Parliament as it broadly aligns with several Labour policy priorities and agrees that the Conservatives were fiscally irresponsible in government. The Party will now need to demonstrate it can hold the Government to account on its Budget commitments, particularly on the NHS, whilst leaning to the right of Labour on areas such as VAT on private schools and inheritance tax to retain its support in typically-Conservative heartlands."

From triple lock to unlocking growth

There's welcome news for (most) pension savers, cause for reflection among those who want to see greater retail investment in UK equities and the promise of a "new vision for financial services" in the Chancellor's November Mansion House speech.

Despite (or perhaps because of) media speculation that the Budget could impose NI on employer pension contributions, the measure did not feature in the Budget. This, coupled with a 4.1% increase in the state pension and Pension Credit Standard Minimum Guarantee is welcome news for savers and those concerned by later life retirement adequacy. Bringing unspent pension pots into the scope of inheritance tax from April 2027 however will be less welcome by the 8% of estates estimated to be affected by the move.

The Government and regulators have emphasised that the Advice/Guidance Boundary Review is intended to encourage greater retail investment in UK equities. While imposing an effective inheritance tax rate of 20% on shares designated as not listed may only affect around 0.3% of estates a year, the Government will need to consider whether the increase of the lower rate of CGT from 10 to 18% and the higher rate from 20 to 24% might pose a psychological barrier for consumers contemplating moving capital from cash to equities.

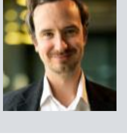
On the UK's financial system more broadly, while the Chancellor announced the Monetary Policy Committee's remit to maintain inflation at 2% will be retained, the Budget promises new remit letters for the Financial Policy Committee, Prudential Regulation Committee, Financial Conduct Authority, and Payment Systems Regulator. These will be published alongside the Chancellor's Mansion House speech on 14 November, in which she will "set out her vision for the financial services sector… [including] the growth and competitiveness of the sector and ensuring we make the most of the talent in the sector through the Women in Finance Charter".

David Postings, Chief Executive of UK Finance, said:

"The chancellor's Budget today focused on investment and economic growth, areas in which the financial services industry plays a critical role… The sector provides high-skilled jobs across the country. As our recent tax report highlighted the sector is a significant contributor to the exchequer, including through employment taxes, which will increase as a result of the National Insurance changes."

ABI Director General Hannah Gurga said:

"While this Budget carries significant additional costs for businesses, we support its focus on investment. Insurers and long-term savings providers play a crucial role as investors in boosting the economy. We will work with government on the National Wealth Fund and the Pensions Review to further unlock the power of private investment, especially with a focus on green and good UK infrastructure projects. Through our Investment Delivery Forum, we'll continue to work with members and local decision makers to identify and help fund suitable projects across the country, delivering the best value for savers, the economy and the environment."



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Green Book priorities for the Government

Dhara Vyas, CEO-designate at Energy UK, said:

"Driving investment, growth and productivity were the focus of much of the Budget speech today and it was encouraging to hear the Chancellor underling the role clean energy and our industry can play in an economic revival."

Offshore Energy UK CEO David Whitehouse said:

"With an increase in tax despite commodity prices at recent lows, there is no hiding that this is a difficult day for the sector. Oil and gas companies, our world class supply chain and our highly skilled people will support the energy transition. We will not be successful without them."

The clean energy section of the Budget was relatively brief, but it is clearly still embedded as one of the defining missions of the new government.

Unlike other sectors, the Government has made significant progress on its clean energy mission since election day. From the green lighting of a stream of renewable energy projects, to the establishment of key bodies such as Great British (GB) Energy and the National Wealth Fund, the Chancellor was eager to champion the progress that has already been made.

By making changes to its fiscal rules, the Government has freed up further room to boost green investment. The Budget gives the clearest indication yet of the Government's technologies of choice and those that, at least initially, will be the focus of key initiatives such as GB Energy, the industrial strategy and the National Wealth Fund. This includes carbon capture storage, which has been provided £3.9bn of funding, as well as green hydrogen, with 11 projects confirmed across the UK. New nuclear will also play an important role, with £2.7bn of funding earmarked to deliver Sizewell C.

The Government wants to be seen as hitting the ground running with these investments, so as GB Energy is being established, its investment activity will be undertaken by the National Wealth Fund, which can draw on the existing experience and resources of the UK Infrastructure Bank (its predecessor organisation).

It was less good news for the oil and gas sector. The Chancellor confirmed that she would be increasing the Energy Profits Levy (EPL) rate by three percentage points, taking the headline rate of tax on activities in the North Sea to 78%, among the highest in the world, as well as extending the sunset clause to 2030. While well-trailed, the scrapping of the investment allowance regime will cause the most consternation. The oil and gas sector lobbied the Chancellor hard for a successor regime, but the Government remains unapologetic about the move. The silver lining will be the commitment to retain 100% first year allowances for investment within the EPL. A consultative period in early 2025, as well as bi-annual fiscal forums, will take on even greater importance for the sector in the coming months.

In its simplest terms, the Government's approach has been to tax the oil and gas sector to fund its clean energy mission. This has been borne out in today's Budget with the winners and losers clear for all to see.

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NHS: The biggest winner?

Ruth Rankine, NHS Confederation Director of Primary Care, said:

"Our members working in primary care have been raising concerns about their estate for months with us now, so this specific capital funding for primary care is incredibly welcome.

"We await the full detail on how it will be allocated but given the pressure primary care continues to face and especially as we approach winter, we hope the process will be as straightforward as possible and not bogged down with bureaucracy."

The NHS is no doubt one of the biggest winners of this inaugural Labour Budget. More than an hour after she first took to the despatch box, Reeves saved her most significant commitment to last, announcing a £22.6bn increase in the day-to-day health budget – the largest real terms growth in day-to-day NHS spending since 2010 - and a £3.1bn increase in the NHS capital budget.

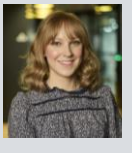
Senior leaders across the NHS will welcome the increased capital budget after the publication of the government-commissioned Dharzi Report last month shone a light on chronic underinvestment across the NHS, finding that England had spent almost £37bn less on its health infrastructure and other assets since the 2010s compared to its peers.

The opposition however will take a warier approach. Whilst the Shadow Health Secretary has welcomed £1.5bn of spending on new surgical hubs and diagnostic scanners – a model which she will be keen to remind the public was introduced first under her government – on investment, there will be reticence as to the shrewdness of committing to beefed up capital budgets before presenting a solid plan for reform. Wes Streeting has set out a broad vision centered around a shift in emphasis from hospital to community, from analogue to digital, from sickness to prevention, but concrete plans will not be forthcoming until the Spring when the 10-year plan for the NHS is due to be published. In the interim, increased duties on tobacco and the introduction of a flat-rate excise duty on vaping liquids set out the Government's intent on prevention.

Elsewhere, the life sciences sector will find plenty to celebrate. £2bn of investment in health R&D, £520m of which has been earmarked for the establishment of a new Life Sciences Innovation Manufacturing Fund, should settle any nerves within the industry as to the Government's intention to make good on the pledge it set out in its Industrial Strategy Green Paper to promote the Life Sciences as part of its broader ambition to deliver on growth.

Richard Torbett, Chief Executive of the ABPI said:

"Despite the tough fiscal environment, today's Budget is a clear indication that the Government sees life sciences at the heart of its growth mission. Confirmation of the life sciences innovative manufacturing fund is very welcome, and will be crucial in helping to capture high-productivity investment, and create valuable jobs at a time when they are most needed."



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A mixed bag for the tech sector?

Russ Shaw CBE, founder, Tech London Advocates said:

"If economic growth is truly the government's goal this Parliament, protecting the UK's start-up ecosystem is essential. The rise in capital gains tax (CGT) risks stifling investment at a time when we need it most. Britain's entrepreneurs are key to our global competitiveness, bringing vital investment and pioneering solutions in sectors like healthcare and green energy. Dissuading this investment risks slowing our progress and weakening the UK's reputation as a top innovation hub. Higher CGT could drive talent and capital elsewhere, just when we need them to power job creation and economic resilience."

A first Labour Budget in 14 years for the tech sector may yet have left the industry with mixed feelings, raising more questions than answers about the future of policy development for the industry in the UK. While some anticipated measures were introduced, others were notably absent.

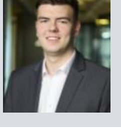
Notably, for firms looking to leverage the benefits of artificial intelligence (AI), questions remain, with only one mention of AI in the accompanying Budget document – a re-commitment to publish an AI Opportunities Action Plan roadmap in the future. Similarly absent from the Budget was a substantial increase in AI-related funding for regulators or a considered focus on an issue that was priority for the last government, raising questions about the new Government's position on AI and its commitment to maintaining the UK's competitive edge in this rapidly evolving field.

Away from slower moving plans in the AI space, the long-trailed headline grabbing measure pre-Budget was the introduction of a so-called 'Amazon tax', aimed at leveling the playing field between high street retailers and online giants. In practice, the overhaul of business rates has landed smoothly with limited reaction to a plan that seeks to incentivise investment, address empty properties, and support entrepreneurship. For firms looking for additional re-assurance of the Government's commitment to the sector, the Spending Review did protect the Department for Science Innovation and Technology's (DSIT) Budget increasing it by 6.5% in the next year.

While longed for reforms to R&D tax credits were absent, a commitment to a business taxation roadmap, and details of a pilot to encourage tech adoption for SMEs and improve digital skills, show the emergence of the Government's plan to tackle the UK's productivity puzzle and skills gap. Alongside this, a commitment to speed up access to new tech and unlock growth via the new Regulatory Innovation Office (RIO) in DSIT will be key for Government, with the RIO seeking to balance a remit to cut red tape and reduce complexity, while avoiding conflict with existing regulators. Doing so, would enable the sector to benefit from a simplified regime that saw the Spending Review, allocate £13.9bn for DSIT to invest in R&D in the coming year and a commitment to set 10-year budgets for key R&D activities. With a dose of long-termism clear, the Government will be hoping that this certainty, alongside its accompanying legislation in the Data Use and Access Bill will underpin the UK's position as a tech superpower for years to come.

Dom Hallas, Executive Director of the Startup Coalition said:

"Any Budget with increases to CGT and NICS, gradual increases to Business Asset Disposal Relief (BADR) and taxes on investors going up is never easy and today will be hard for founders seeing taxes on their businesses rise. But we appreciate that the Government has listened to ensure that entrepreneurs' biggest fears have not materialised, and some balance has been struck including maintaining all important R&D investment."



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REDEFINING COMMUNICATIONS TO DELIVER MEANINGFUL CHANGE