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By Matthew Keep,
Daniel Harari

Autumn Statement 2023: Background briefing

Summary
1 Introduction
2 Economic situation
3 Outlook for the public finances
4 Parliament's fiscal year

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Contributing Authors
Philip Brien, Public spending, Economic Policy and Statistics;
Andrew Mackley, Benefits, Social policy;
Francis Hobson, Benefits, Social Policy;
Steven Kennedy, Benefits, Social Policy

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Summary

Ahead of the 2023 Autumn Statement on 22 November, this briefing looks at the UK's economic situation, economic forecasts and the public finances.

The Office for Budget Responsibility (OBR) will publish revised forecasts for the economy and public finances on the same day as the statement. The OBR is the independent public finances watchdog, which produces the official forecasts for the economy and public finances used by the Chancellor.

Economic situation

The UK economy has been growing very slowly since the beginning of 2022, with GDP growth of 0.6% in the year to the third quarter of 2023. The impact of high inflation and rising interest rates has subdued economic activity, a trend set to continue in 2024.

GDP is forecast by the Bank of England to stagnate in 2024 as the full impact of recent interest rate increases is felt. The Bank raised rates from 0.1% in December 2021, a record low, to 5.25% in August 2023 to subdue inflation. Since then, rates have been kept unchanged.

Economists don't think further rate increases are likely. The annual inflation rate has fallen from a peak of 11.1% in October 2022 to 4.6% in October 2023. Previous sharp increases in prices seen in 2022, such as in energy bills, have not been repeated in 2023, reducing the annual rate. Further modest declines are expected in inflation in 2024.

The rise in interest rates has made debt repayments, such as for mortgages, more expensive squeezing household budgets and is expected to result in falling business and housing investment. A strong labour market has shown signs of cooling, with job vacancies falling, although average wage growth has recently risen at a faster annual rate than prices for the first time since late 2021.

Public finances

Government borrowing – the difference between public spending and income raised from taxes and other sources – has fallen from the peacetime record reached in 2020/21 but remains higher than the past 50-year average.

Borrowing was equivalent to 5.0% of GDP in 2022/23. The OBR forecast in March 2023 that borrowing in 2023/24 would be broadly similar to in 2022/23 and would fall in subsequent years.

The Government has borrowed less, in the first six months of 2023/24, than the OBR forecast. This is largely because of the strong performance of government receipts. Lower-than-expected borrowing in the near term is good news. The extent to which it is good news for borrowing in the longer-term depends on whether the OBR expects the underlying improvements to persist.

Government debt (which is largely the stock of past borrowing) is 98% of GDP. The last time it was higher than this, relative to the size of the economy, was in the 1960s. Debt has been higher, though, particularly after periods of war.

Government's underlying debt (excluding the Bank of England's net debt) is 89% of GDP. This is the measure of debt used in the Chancellor's target for government debt. The OBR forecast in March that underlying debt would continue growing each year before falling in 2027/28.

The OBR's November 2023 forecast

The OBR's forecasts for the wider economy determine much of what happens in the public finance forecasts. For instance, inflation and the and the size of the economy are important for forecasting tax revenues and some areas of spending, such as welfare and debt interest. The Chancellor's policy decisions, such as whether to increase working age benefits by inflation, are also important for the forecasts

The Chancellor will be seeking to meet his targets for government borrowing and underlying debt (excluding the Bank of England's net debt). Both targets are focused on the fifth year of the forecast (which will be 2028/29) and both were being met in the OBR's March 2023 forecast.

Press reports suggest that in its initial forecast, the OBR has the debt target being met a little more comfortably than in March 2023. It's likely that the Chancellor will use this additional 'headroom' to introduce policy measures.

The Treasury's priorities and potential announcements

The Treasury says measures announced in the Autumn Statement will help to get people back into work and boost growth.

It's likely that the Chancellor will announce changes to the Work Capability Assessment (WCA). The WCA determines entitlement to benefits that help cover day-to-day living costs for people whose capability for work is limited by a disability or health condition. The Government says changes, proposed in a recent consultation, would give those who can work "the right support and opportunities to move off benefits and towards the job market".

A 'Back to Work Plan' was announced on the day this briefing was going to press, which will form part of the 2023 Autumn Statement. The plan comprises a "package of employment-focused support that will help people to stay healthy, to move off benefits and to move into work".

We will hear more about an ongoing review into improving public sector productivity. More detail might be announced about reforms to unlock pension fund investment.

The Chancellor says that cutting business taxes, to support economic growth, is his priority for taxes currently.

Further information

The Library will publish a summary of the Autumn Statement on the evening of 22 November 2023.

For a quick explainer on the Autumn Statement, see the Library Insight: What is the Autumn Statement?

Ahead of the Autumn Statement, the Library will publish Economic Indicators, our analysis of the latest UK and international economic indicators. The latest data are also available on the Library's UK economy dashboard.

1 Introduction

This briefing sets out the background to the 2023 Autumn Statement.

Section 2 considers the outlook for the economy. Section 3 sets out how the public finances are performing and looks at some of the challenges the Chancellor faces. Section 4 sets out Parliament's annual tax and spending cycle.

1.1 The Government's economic priorities

The 2023 Autumn Statement comes at the beginning of the final parliamentary session before the next general election.

The King's speech opened Parliament on 7 November 2023, which set out the Government's legislative priorities for the next parliamentary session. It included 21 bills, six of which had been carried over from the previous session.

On the economy, the King said his ministers will "address inflation and the drivers of low growth over demands for greater spending or borrowing." The rate at which prices are rising (the inflation rate) has eased over the past year but remains high compared to recent decades.

With inflation falling from 11.1% in October 2022 to 4.6% in October 2023,[1] the Prime Minister says the Government has delivered on one of his five priorities for 2023, namely to halve inflation.[2] Economists have highlighted the role that lower energy prices and the Bank of England's raising of interest rates have played in bringing down inflation. See section 2.3 for more about this priority.

Two more of the Prime Minister's five priorities relate to the economy. The Prime Minister says his Government will "grow the economy, creating better-paid jobs and opportunity right across the country" and "make sure our national debt is falling so that we can secure the future of public services."[3]

1 HM Treasury (@hmtreasury), X (Twitter), 15 November 2023 [Accessed 16 November 2023]

2 HC Deb 15 November 2023 c638; 10 Downing Street News Release, Prime Minister outlines his five key priorities for 2023, 4 January 2023

3 10 Downing Street News Release, Prime Minister outlines his five key priorities for 2023, 4 January 2023

2 Economic situation

Weak GDP growth since early 2022 is forecast to continue into 2024, as the full effect of recent interest rate increases restrain economic activity. The inflation rate has fallen, with more gradual declines expected over the next year.

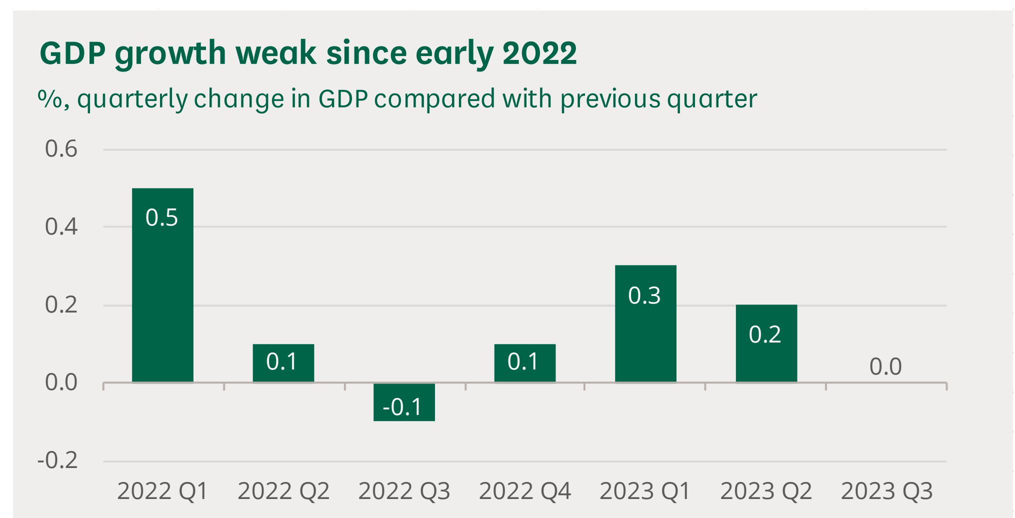
This section examines recent economic developments and expectations for the UK economy.

2.1 GDP growth

Economic growth has been weak since the beginning of 2022, with high inflation and rising interest rates constricting household budgets and consumer and business spending. This pattern is forecast to continue in 2024.

Economy has grown slowly since early 2022

As the chart below shows, there was no GDP growth in the third quarter (Q3) of 2023.[4] This was marginally better than the average -0.1% expectation from economists.[5] It was, however, lower than quarterly GDP growth of 0.2% in Q2 2023.



Source: ONS, Quarter-on-quarter GDP growth, series IHYQ (10 Nov 2023 update)

[4] Office for National Statistics (ONS), GDP first quarterly estimate, UK: July to September 2023, 10 November 2023

[5] "UK economy flatlines in third quarter amid high interest rates", Guardian, 10 November 2023

The economy has grown at a very modest pace since the beginning of 2022. GDP increased by a total of 0.6% over the 18-month period from Q1 2022 to Q3 2023.[6] Adjusted for population growth, GDP per head was the same in Q3 2023 as it was nearly two years before in Q4 2021.[7]

This period of stagnation came during a sharp rise in energy prices since 2022, chiefly a consequence of the conflict in Ukraine. As the UK needs to import energy, this made the UK "poorer as a country" in the words of Bank of England Governor Andrew Bailey.[8]

Given these circumstances, it can be argued that the economy has proven resilient.[9] The Chancellor, for example, has made such an argument.[10] Others such as Citi, the investment bank, have also referred to the economy's resilience.[11]

To illustrate, GDP in 2023 was forecast to fall by 0.9% in a survey of economists in January 2023, whereas in a November 2023 survey GDP is forecast to rise by 0.5%.[12]

Prime Minister's pledge on economic growth

In January 2023, the Prime Minister set out his five priorities for "building a better future.[13] One of these was to grow the economy. It was not stated over what period the pledge covered.

There are many different time periods over which GDP growth rates can be calculated, including:

- comparing GDP in a single quarter with GDP in the same quarter a year before (say, Q3 2023 compared with Q2 2023)
- comparing GDP in a single quarter with GDP in the same quarter a year before (say, Q3 2023 compared with Q3 2022)
- comparing GDP in a full year with GDP the year before (say, 2023 compared with 2022

As outlined in this section, broadly-speaking, the economy has grown slowly in 2023 but not in a sustained way.

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6 ONS, quarterly real GDP level, series ABMI (10 Nov 2023 update)

7 ONS, real GDP per head level, series IHXW (10 Nov 2023 update)

8 Bank of England, The cost of living - speech by Andrew Bailey, 1 March 2023; for more, see section 2.1 of Library research briefing, Background to Spring Budget 2023

9 Simon French (@shjfrench), Chief Economist at Panmure Gordon investment bank, X (Twitter), 10 November 7:29am GMT [Accessed 13 November 2023]

10 Interview with Sky News, Jeremy Hunt says families should be optimistic despite stagnating economy, 10 November 2023, from 5:10 to 5:17 in video

11 In its forecasts for the IFS Green Budget 2023 (PDF), 20 October 2023, section 2, p51

12 Treasury, Forecasts for the UK economy: a comparison of independent forecasts, various editions

13 Prime Minister's Office, PM speech on building a better future: 4 January 2023

Higher interest rates to curtail growth

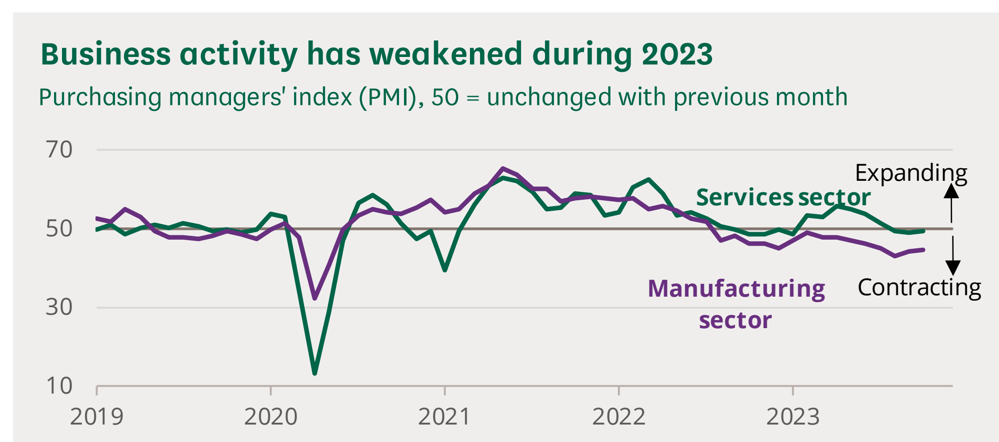
Expectations for economic growth over the next year are subdued at best. This is despite the downward trend in inflation appearing set to continue (see section 2.3), potentially providing a boost to households and businesses.

The effects of recent increases in interest rates, from 0.1% in December 2021 to 5.25% in August 2023, where they have since remained, are expected to restrain household spending and reduce business and housing investment.[14]

The Bank of England estimates that around half of the effect from interest rate rises on GDP has been felt, with the rest evident by 2025.[15] Analysis by PwC, a financial consultancy, also suggests that around half of the effects from the rate tightening cycle are still to come.[16]

In addition, some temporary financial support provided by government, such as the cost of living payments to households, are set to be removed (subject to the announcements in the Autumn Statement).[17] This will result in fiscal policy – the government's tax and spending decisions – being less supportive to growth.

Recent economic indicators broadly show the economy stagnating as we head to the end of the year. The closely watched S&P Global/CIPS purchasing managers' index, shown in the graph below, recorded a mild contraction in business activity in September and October, with particular weakness in the manufacturing sector.[18]



Source: S&P Global/CIPS UK PMI, monthly data for services (PDF) and manufacturing (PDF) sectors

[14] For example, NIESR, UK Economic Outlook Autumn 2023, 8 November 2023

[15] Bank of England, Monetary Policy Report: November 2023, 2 November 2023, p88

[16] PwC, UK Economic Outlook: November 2023 (PDF), 9 November 2023, p6 and p31

[17] Bank of England, Monetary Policy Report: November 2023, 2 November 2023, and Citi forecasts for the IFS Green Budget 2023 (PDF), 20 October 2023, section 2, p70

[18] S&P Global/CIPS, UK Services PMI (PDF, 3 Nov 2023) and UK Manufacturing PMI (PDF, 1 Nov 2023)

Reports received by Bank of England officials from businesses suggest that businesses are seeing "subdued demand", with growing concerns about the economic outlook, notably from consumer-facing sectors.[19]

Not all business surveys are as pessimistic. For example, the Lloyds Bank Business Barometer reports business confidence rising in October and sentiment being on a broadly upward trajectory over the course of 2023.[20]

GDP growth forecasts

The National Institute of Economic and Social Research forecasts GDP to grow by 0.1% in Q4 2023, compared to Q3 2023.[21] This matches the forecast of the Bank of England. Both forecasts were published in early November.[22]

For 2024, the Bank of England forecasts GDP to be unchanged for five successive quarters from Q1 2024 to Q1 2025, with only modest growth thereafter.[23]

The average forecast among economists surveyed by the Treasury in the first half of November 2023 was for GDP growth of 0.4% in 2024.[24]

Possible changes to OBR GDP growth forecasts

At its last set of forecasts published in March 2023, the Office for Budget Responsibility (OBR) forecast GDP growth of -0.2% in 2023, 1.8% in 2024 and 2.5% in 2025.[25]

It therefore seems likely the OBR will revise up its GDP growth forecast for 2023 but lower it for 2024 (and possibly 2025). The Resolution Foundation, a living standards think tank, expects the OBR to raise its 2023 forecast "to around 0.6%".[26]

International GDP growth comparisons

In common with other European economies, UK economic growth has been affected by high inflation, driven by the surge in energy prices. UK GDP was 0.6% higher in Q3 2023 compared with a year before. This was similar to France (0.7%) but higher than Germany (-0.4%) and the Eurozone average (0.1%).[27] US growth has been strong this year and GDP was 2.9% higher in Q3 2023 compared with a year before.

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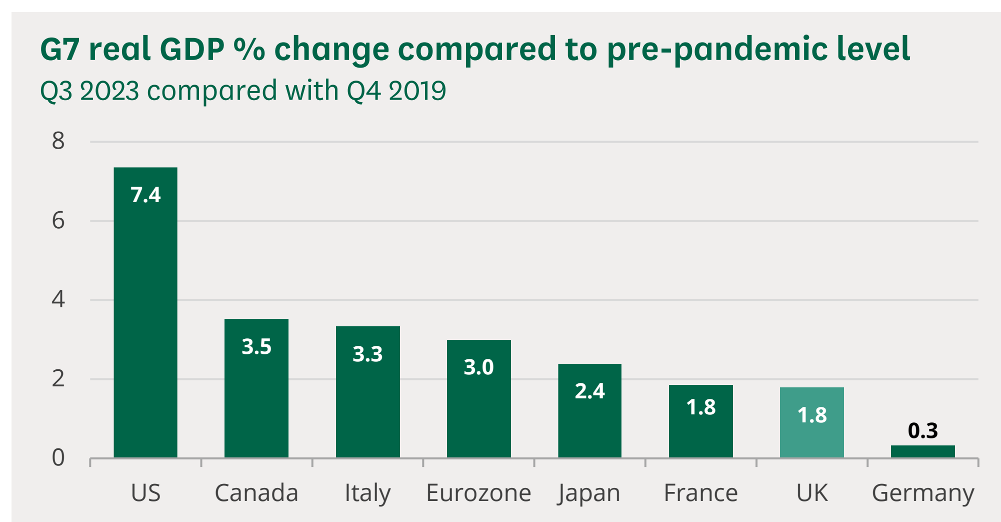
19 Bank of England, Monetary Policy Report: November 2023, 2 November 2023, p46 and p72
20 Lloyds Bank Business Barometer, October 2023 edition (PDF)
21 NIESR, GDP Remains Flat in Q3; Recession Avoided This Year, 10 November 2023
22 Bank of England, Monetary Policy Report: November 2023, 2 November 2023, p47
23 Bank of England, Monetary Policy Report: November 2023, 2 November 2023, real GDP levels
24 Treasury, Forecasts for the UK economy: a comparison of independent forecasts, 15 November 2023
25 OBR, Economic and fiscal outlook: March 2023, 15 March 2023
26 Resolution Foundation, Preparing the pitch: Autumn Statement 2023 preview, 6 November 2023
27 Library economic indicator briefing, GDP – International Comparisons

Comparing GDP now with before the coronavirus pandemic, in the UK it was 1.8% higher in Q3 2023 than in Q4 2019. This compares with Eurozone GDP being 3.0% higher, with GDP in France up by 1.8% and in Germany up by 0.3%. The other G7 economies, shown below, had higher growth than the UK over this period, including the US where GDP was 7.4% higher.



Source: Library calculations based on OECD.Stat, real GDP levels (accessed 15 November 2023)

UK GDP data was recently revised by the Office for National Statistics (ONS).[28] GDP growth in 2020 and 2021 was revised up due to additional information becoming available, including on the costs that firms faced in the pandemic and on public sector output during the pandemic.[29]

As a result, the UK's economic recovery from the Covid-19 pandemic was stronger than previously thought. Before the revisions, UK GDP was 0.2% lower in Q2 2023 compared to its pre-pandemic level of Q4 2019. It is now estimated to be 1.8% higher.

Other countries, including Spain and Italy, have also revised up their GDP estimates for recent years, with more likely to do so in future.

2.2 Interest rates

The Bank of England has increased interest rates in an attempt to get inflation back down to its 2% target sustainably. The financial markets and most economists think that the Bank will not raise rates again, as the effects of past rate hikes have yet to be fully felt in the economy.

[28] ONS blog post, GDP – Bringing the big picture up-to-date, 29 September 2023

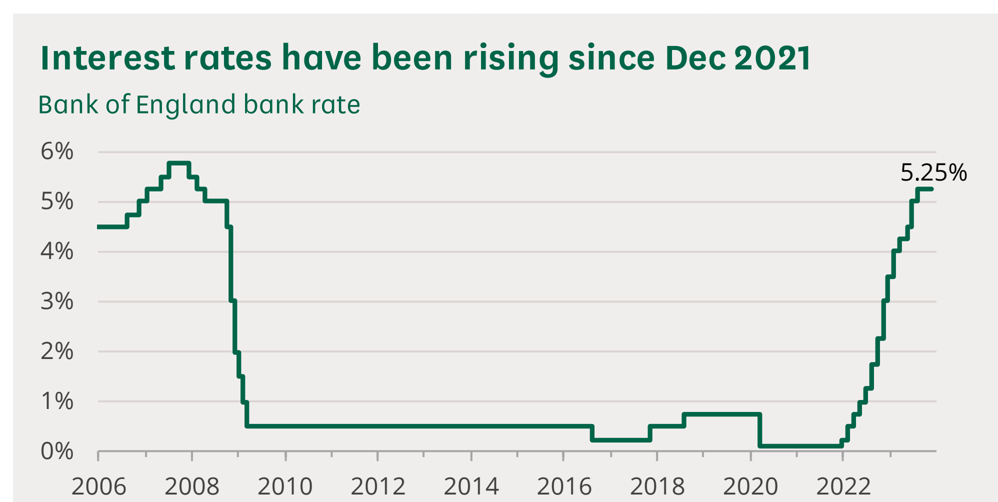
[29] ONS blog post, Improving our estimate of businesses' outgoings during the COVID-19 pandemic and ONS, Impact of Blue Book 2023 changes on gross domestic product, both 1 September 2023

Rates have gone up from 0.1% in 2021 to 5.25% in 2023

In response to higher inflation, the Bank of England's Monetary Policy Committee (MPC) raised interest rates at 14 consecutive policy meetings from 0.1% in December 2021 to 5.25% in August 2023.[30]

At 5.25%, the benchmark bank rate is now at its highest level since the beginning of 2008, in the early stages of the global financial crisis.

At its September and November 2023 meetings, the MPC left interest rates unchanged at 5.25%.[31] In November, the nine-member MPC voted six to three in favour of not changing rates, with the three minority votes wishing to raise rates by 0.25 of a percentage point.[32]



Source: Bank of England, Interest rates and Bank Rate (as of 16 November 2023)

The MPC has raised rates to lower the risk that inflation remains persistently above its 2% target. The 2% target refers to the annual change in the Consumer Prices Index (CPI) measure of inflation and is set by the government.[33]

In theory, higher interest rates lower inflation by raising the cost of borrowing. As people and businesses have less money to spend on other things and more incentive to save, demand for goods and services in the economy is diminished. Lower demand reduces the pressure on firms to raise prices and on workers to get higher pay rises (often because unemployment increases).

[30] Bank of England, Interest rates and Bank Rate (accessed 14 November 2023)
[31] The MPC meets roughly every six weeks
[32] Bank of England, Bank rate maintained at 5.25% - November 2023, 2 November 2023
[33] Bank of England, Inflation and the 2% target and Treasury, HMT monetary policy remit

Have interest rates peaked?

As of mid-November, financial markets and most economists don't expect any further interest rate increases from the Bank of England.[34] The view held by many is that with the inflation rate expected to fall and economic growth weak, there is less need to continue to raise rates.

In addition, the effect of the sharp increase in rates seen over the past two years has not fully been felt yet in the economy, as discussed in section 2.1. This means the existing level of interest rates are still working to reduce inflationary pressures in the economy, without the need for additional increases.

Given the weak outlook for economic growth, some economists have turned their attention to when the Bank of England may start to cut rates.

The consensus, according to a survey of economists by Reuters conducted in early November, is that rates will start being cut during the second half of 2024.[35] This aligns with the view of financial markets.[36]

However, Bank of England Governor Andrew Bailey has said it is too early to talk about rate cuts, noting that "restrictive" monetary policy – where interest rates work to reduce growth and therefore inflation – was needed for an extended period to ensure inflation falls back to the Bank's 2% target.[37]

High rates have led to higher borrowing costs for households, notably mortgage interest rates. This is covered further in section 2.4.

2.3 Inflation

The rate at which prices are rising (the inflation rate) has eased over the past year but remains high compared to recent decades. Further modest declines in the annual inflation rate are expected over the next year.

Inflation rate falling but still high

UK consumer prices, as measured by the Consumer Prices Index (CPI), were 4.6% higher in October 2023 than a year before.[38] This was down from 6.7% in

[34] Bank of England, Market Participants Survey results – November 2023, 3 November 2023 and "No change to BoE Bank Rate until at least July as inflation stays sticky, Reuters poll shows", Reuters, 9 November 2023

[35] "No change to BoE Bank Rate until at least July as inflation stays sticky, Reuters poll shows", Reuters, 9 November 2023

[36] Bank of England, Monetary Policy Report: November 2023, 2 November 2023, chart 2.5

[37] "Bank of England's Andrew Bailey says 'too early' to talk about interest rate cuts", Financial Times, 8 November 2023

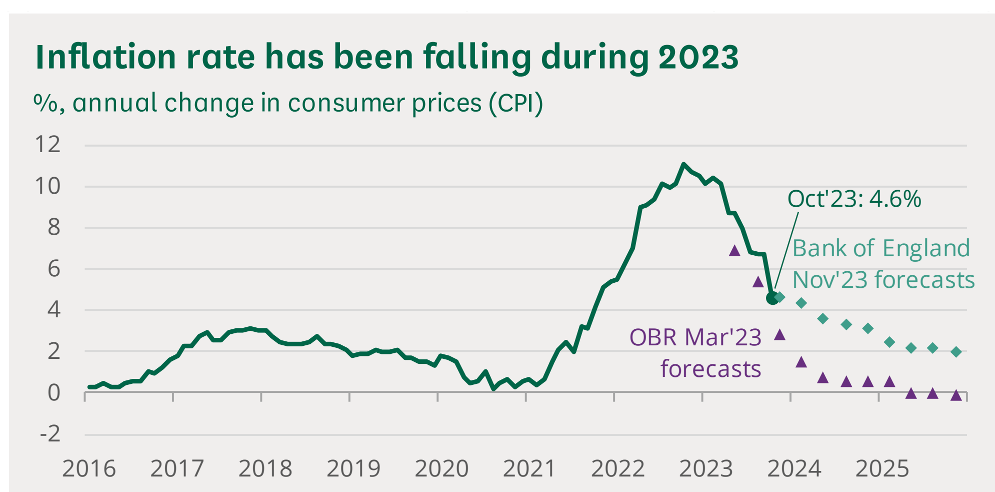
[38] ONS, Consumer price inflation, UK: October 2023, 15 November 2023

September and the lowest rate of annual increase since October 2021, as shown in the graph below.[39]

Most of the sharp decline in the inflation rate in October compared to September was due to a decline in household energy bills, particularly when compared with the big increase seen in October 2022.

The annual inflation rate's recent peak of 11.1% in October 2022 was higher than at any time since October 1981, according to Office for National Statistics (ONS) estimates.[40] Since then inflation has fallen as previous sharp increases in prices in 2022, like in energy bills, have not been repeated in 2023.

A slowing or falling inflation rate means that prices are rising more slowly than before; it does not mean that price levels are actually falling. For example, if the annual inflation rate drops from 10% to 5%, this means prices are still 5% higher compared to a year before.



* Quarterly forecasts based on market expectations of interest rates at the time forecasts were made.
Sources: ONS, monthly outturn data up to Oct 2023, then quarterly forecasts from Bank of England, Monetary Policy Report - Nov 2023 and OBR, Economic and fiscal outlook: March 2023

'Core' inflation, which excludes the volatile energy and food components of the CPI, fell from 6.1% in September to 5.7% in October.[41] Inflation in services, a measure the Bank of England pays close attention to, also fell from 6.9% in September to 6.6% in October. Both measures were at 31-year highs earlier in the year.[42]

Further detail on inflation, including the factors behind its rise in recent years, including energy and food prices, are covered in detail in the Library research briefing Rising Cost of Living in the UK.

39 ONS, CPI annual inflation rate, series D7G7 (15 November 2023 update)

40 ONS, Consumer price inflation, UK: October 2023, 15 November 2023; based on modelled data back to 1950 from the ONS as the CPI was introduced in 1997 (with consistent data back to 1989).

41 "Investors slash bets on UK rate rise after inflation falls to 6.7%", Financial Times, 20 September 2023

42 ONS, Consumer price inflation, UK: October 2023, 15 November 2023

Prime Minister's pledge on inflation

When the Prime Minister announced his five priorities for "building a better future" in January 2023, halving inflation was one of them.[43] It was not stated over what period the pledge covered.

At the time of the Prime Minister's speech, the most recent published figure showed the annual inflation rate at 10.7% in November 2022, slightly below 11.1% in October (a 41-year high).[44] Subsequently, inflation fell to 10.5% in December and 10.1% in January.

With inflation at 4.6% in October 2023, the Prime Minister and the Treasury said on 15 November that the pledge to halve inflation had been met.[45]

Economists have pointed out that the main factors behind falling inflation over the past year have been lower energy prices and the impact of the Bank of England raising interest rates.[46] The Chancellor said the government had played an important role by being "disciplined on spending, helping people into work and resisting calls for additional borrowing."[47]

This pledge is separate from the more formal inflation target of 2% the government has set for the Bank of England, which is tasked with controlling inflation.[48]

Inflation rate expected to continue falling, but slowly

The overall inflation rate is expected to continue falling over the next year due to lower energy prices and reduced inflation in consumer goods and food.[49]

The Bank of England forecasts the inflation rate to be 4.6% on average in the final quarter (Q4) of 2023 and to average 3.1% in Q4 of 2024.[50]

The average forecast among economists surveyed by the Treasury in the first half of November 2023 was for inflation to also be 4.6% in Q4 2023 and 2.5% in Q4 2024.[51]

However, both sets of forecasts were made before the release of the most recent inflation figures for October 2023.

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43 Prime Minister's Office, PM speech on building a better future: 4 January 2023

44 ONS, annual % change in the consumer prices index (CPI), series D7G7

45 HM Treasury (@hmtreasury), X (Twitter), 15 November [Accessed 16 November 2023] and UK Prime Minister (@10DowningStreet), X (Twitter), 15 November [Accessed 16 November 2023]

46 For example, "UK inflation falls to two-year low of 4.6%", The Times, 15 November 2023

47 "Inflation slows to 4.6% as government says pledge met", BBC News, 15 November 2023

48 Bank of England, Inflation and the 2% target and Treasury, HMT monetary policy remit

49 Bank of England, Monetary Policy Report: November 2023, 2 November 2023, p34

50 Bank of England, Monetary Policy Report: November 2023, 2 November 2023, chart 2.16 and table 1.C

51 Treasury, Forecasts for the UK economy: a comparison of independent forecasts, 15 November 2023

In March 2023, the OBR forecast the inflation rate to fall faster than it actually did during 2023.[52] This means the OBR is likely to revise up its forecast of 2.9% for December 2023, when its new forecasts are published alongside the Autumn Statement.

The OBR in March also forecast a sharp decline in 2024, with the inflation rate forecast to be 0.5% in Q4 2024 and to be around 0% during most of 2025 and early 2026.[53] This is also likely to be revised higher.

2.4 Household incomes and the labour market

High inflation and the large increase in mortgage costs have hit household budgets and contributed to stagnant consumer spending, an important source of economic growth. A strong labour market has begun to cool, with job vacancies falling and unemployment rising a little. Average wage growth has recently risen by more than inflation.

Consumer spending forecast to remain stagnant

As consumer spending accounts for around 60% of GDP, the financial health of households is a crucial factor in determining the overall economic outlook.[54] The sharp increases in inflation and interest rates have squeezed incomes and hit confidence.

Traditionally the driving force behind GDP growth in the UK, consumer spending in the third quarter (Q3) of 2023 was roughly the same as it was in Q1 2022, reflecting the difficult economic conditions faced by many people.[55]

Although the inflation rate is expected to continue to ease and average wages are now growing by more than inflation and boosting household incomes, consumer spending is still expected to be subdued in 2024.[56]

The Bank of England is forecasting no growth in consumer spending in 2024, with the National Institute of Economic and Social Research forecasting a 0.1% increase.[57]

The Bank of England believes the impact of past interest rate increases, the withdrawal of temporary financial support from the government for the pandemic and the energy price shock, and knock-on effects from lower house prices, will restrict consumer spending.

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52 OBR, Economic and fiscal outlook: March 2023, 15 March 2023

53 Covered in section 3.2 of Library research briefing Spring Budget 2023: A summary

54 Citi forecasts for the IFS Green Budget 2023 (PDF), 20 October 2023, section 2, p70

55 ONS, Real household final consumption expenditure level, series ABJR (10 Nov 2023 update)

56 Bank of England, Monetary Policy Report: November 2023, 2 November 2023, chart 3.2 and p87

57 Bank of England, Monetary Policy Report: November 2023, 2 November 2023, Table 1.C and NIESR, UK Economic Outlook Autumn 2023, 8 November 2023, table A3 and p25

The Resolution Foundation think tank projects that households in the bottom half of the income distribution will see a fall in their disposable incomes after housing costs in the financial year beginning in April 2024.[58]

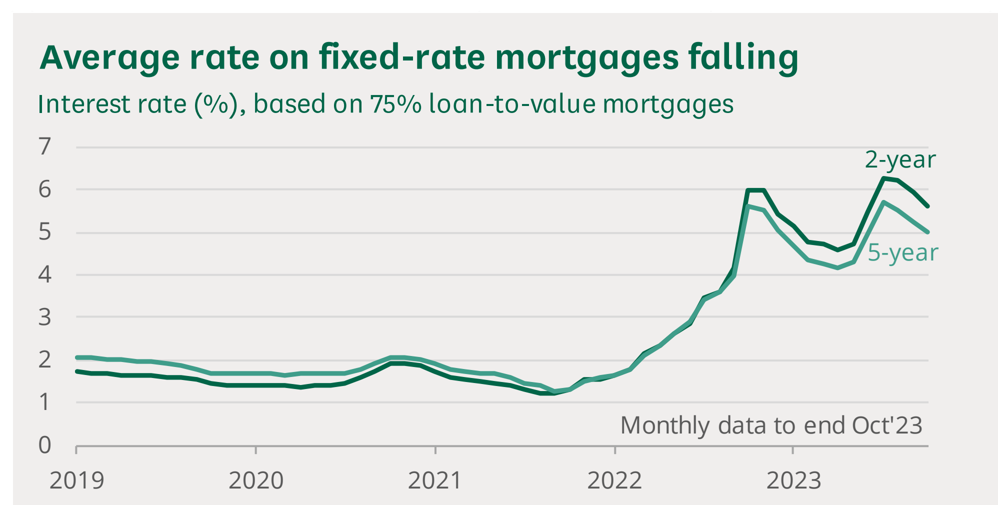
The effects of higher mortgage rates

Mortgage interest rates started increasing from around September 2021, when average two-year fixed mortgage interest rates were around 1.2% and five-year fixes were around 1.3%.[59] As the Bank of England has increased interest rates, mortgage rates on offer have also climbed.

Following the increase in mortgage rates following the "mini budget" of September 2022, average mortgage rates fell back in early 2023. Higher-than-expected inflation data led to mortgage rates going up again in spring and summer 2023.

In recent months, the likelihood that the Bank of England has completed its cycle of interest rate increases has led to lower mortgage rates being offered, as shown in the graph below.

At the end of October 2023, the average interest rate on a two-year fixed rate mortgage was 5.63% and for five-year fixed rate mortgages it was 4.99%.[60] Further reductions have been made by some mortgage providers since then.[61]



Source: Monthly data to October 2023, Bank of England, Quoted household interest rates (accessed 14 November 2023), at 75% LTV

Around 30% of households have a mortgage (the rest own their property outright, privately rent or are in social housing). An estimated 20% of mortgages are on variable rates, which track the Bank of England interest

58 Non-pensioner household disposable income adjusted for inflation after housing costs, Resolution Foundation, Preparing the pitch: Autumn Statement 2023 preview, 6 November 2023, slide 30

59 Bank of England, Quoted household interest rates (accessed 14 November 2023), at 75% LTV

60 Bank of England, Quoted household interest rates (accessed 14 November 2023), at 75% LTV

61 "Lenders cut mortgage rates and offer more deals under 5%", The Times, 15 November 2023

rate.[62] The 80% of mortgages on a fixed-term basis (mostly for two and five years) face a rise in mortgage repayments once the fixed term expires.

Approximately 1.7 million households will come off their fixed rates during 2023 and a similar number in 2024.[63]

In July 2023, the Bank of England estimated that these households face an average increase in monthly mortgage payments of £220 (equivalent to £2,640 per year) when they remortgage, based on a 3.25 percentage point rise in their mortgage interest rates.[64]

In November 2023, financial consultancy PwC estimated the average increase in mortgage costs for those affected would be around £3,000 per year.[65]

Another report, by the Institute for Fiscal Studies (IFS) in June 2023, looked at the impact higher mortgage payments would have on the disposable incomes of households with mortgages. The IFS estimated that after the increase in mortgage payments are accounted for, disposable incomes would be on average 8% lower. This is based on the assumption that mortgage rates would be 3.74 percentage points higher than they were in March 2022.[66]

The IFS also estimated that those aged in their 30s would see the largest average decline in disposable incomes (11%) among mortgage holders and, across the whole of the UK, those in London would see the largest increase in mortgage payments as a proportion of incomes.[67]

Mortgage rates have on average fallen since the summer, so some of those figures may be a little higher than if the same analysis was done more recently.

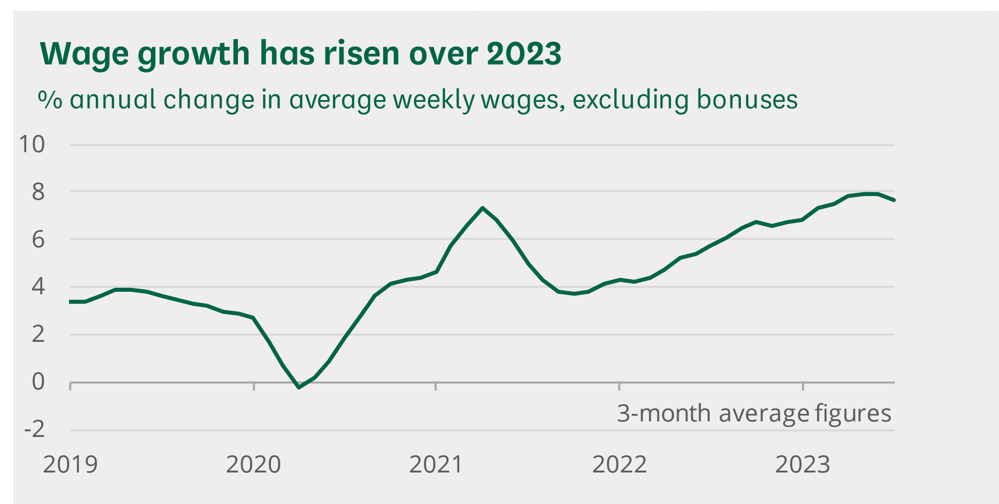
Labour market cooling

Despite the weakness in the economy, the labour market has by-and-large remained robust. There has been low unemployment and wages in nominal terms (not being adjusted for inflation) have risen strongly, as shown in the graph below.

Annual growth in nominal average earnings excluding bonuses was 7.7% in Q3 2023, up from 5.7% in the same period a year before and one of the highest rates for decades (excluding the statistically distorted pandemic

62 Bank of England, Financial Stability Report - December 2022, 13 December 2022, Box B, p54
63 Bank of England, Financial Stability Report - December 2022, 13 December 2022, Box B, p54 and FCA data on mortgage type and fixed rate end date by region via GLA and London datastore
64 Bank of England, Financial Stability Report – July 2023, 12 July 2023, p26
65 PWC, UK Economic Outlook: November 2023 (PDF), 9 November 2023, p22
66 IFS, Interest rate hikes could see 1.4 million people lose 20% of their disposable income, 21 June 2023
67 IFS, Interest rate hikes could see 1.4 million people lose 20% of their disposable income, 21 June 2023

period).[68] Average private sector pay growth on the same measure was 7.8%, while it was 7.3% for the public sector, the highest rate since comparable records began in 2001.



Source: ONS, Annual growth rates of nominal regular pay in Great Britain, 14 Nov 2023

Labour costs make up a large proportion of costs to many firms, particularly in the services sector. Wage growth is therefore an important indicator of inflationary pressures in the economy. The Bank of England says that wage growth at current high levels is not consistent with inflation returning to its 2% target.[69] It expects the pace of wage growth to slow during 2024.[70]

There are, however, some indications that the labour market has cooled in recent months. The number of job vacancies, a measure of demand for labour, has fallen for 16 successive months from the record highs of early 2022, although they remain at historically high levels.[71] In addition, the unemployment rate has risen slightly.[72]

In October, the ONS suspended its regular publications related to unemployment and employment data due to problems with the Labour Force Survey, the source of these figures. More limited, alternative experimental statistics have been published instead. For more on this see the Library Insight, Has labour market data become less reliable? and the ONS, Labour Force Survey: planned improvements and its reintroduction.

Nevertheless, the broad trend of a cooling labour market is corroborated by other indicators unaffected by these problems.[73]

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68 ONS, Average weekly earnings in Great Britain: November 2023, 14 November 2023 and Commons Library, The UK economy: a dashboard

69 Bank of England, Monetary Policy Report: November 2023, 2 November 2023, p53

70 Bank of England, Monetary Policy Report: November 2023, 2 November 2023, pp54-56

71 ONS, Vacancies and jobs in the UK: November 2023, 14 November 2023

72 ONS, Labour market overview, UK: November 2023, 14 November 2023

73 Bank of England, Monetary Policy Report: November 2023, 2 November 2023, p20 and pp52-56

Further detail on recent developments in the labour market is available in the Library research briefing UK Labour Market Statistics.

2.5 Companies and investment

Companies are under pressure faced with high input costs, including for labour, sharp increases in borrowing costs and weak demand.[74] Company insolvencies have gone up during 2023, with the Insolvency Service reporting the highest number of insolvencies in mid-2023 since the global financial crisis of 2007 to 2009.[75]

This environment is also likely to result in firms cutting back on investments. Business investment is forecast to fall by 1% in 2024 according to the Bank of England, while the National Institute of Economic and Social Research think tank (NIESR) expects a decline of 4%.[76] Reports received from Bank officials, however, suggest that many businesses cite the need to invest to maintain and upgrade their technology.[77]

Housing investment, particularly sensitive to the interest rate environment, has already fallen during 2023 (it was down 6.9% in Q3 2023 compared with a year earlier) and is expected to decline further in 2024.[78] NIESR forecasts a decline of 5.0% in 2024.[79]

2.6 Productivity and long-term GDP growth

Long-term, sustained economic growth can be achieved via two routes: more hours being worked overall in the economy (more labour) and increasing productivity (more is produced from the same input).[80]

More labour is in some sense just a numbers game: more people in employment and/or increased average hours worked. This method of increasing GDP may or may not increase average living standards (which can be crudely measured using GDP per person).

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74 "The coming wave of business bankruptcies" [leader article], Financial Times, 8 November 2023

75 The Insolvency Service, Company Insolvency Statistics: July to September 2023, 31 October 2023

76 Bank of England, Monetary Policy Report: November 2023, 2 November 2023, table 1.C, pp96-98 and NIESR, UK Economic Outlook Autumn 2023, 8 November 2023, pp26-27 and table A6

77 Bank of England, Monetary Policy Report: November 2023, 2 November 2023, p73

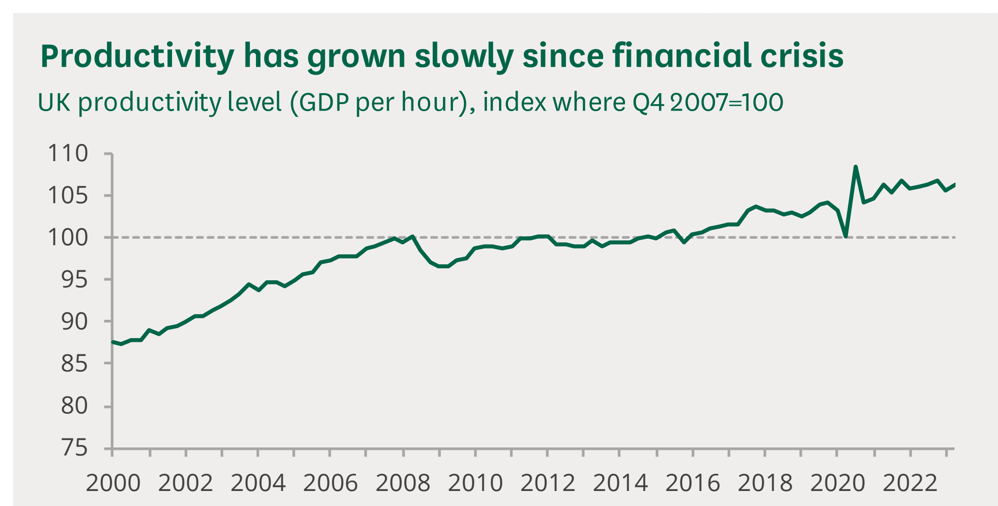
78 ONS, Real investment in dwellings, series KH9K (10 Nov 2023 update)

79 NIESR, UK Economic Outlook Autumn 2023, 8 November 2023, pp26-27 and table A6

80 Further information is available in OBR, Forecasting potential output – the supply side of the economy (PDF), Briefing paper No.8, November 2022

Productivity growth on the other hand increases overall GDP and GDP per person. If more can be produced with the same amount of work done, then this frees up resources in the economy to do other things.

UK productivity growth has slowed sharply since the global financial crisis of 2007 to 2009.[81] This phenomenon is not specific to the UK, although its slowdown is particularly acute.[82] The UK's average annual productivity growth was 0.5% during the decade before the pandemic (2010 to 2019) compared with 2.0% in previous decades.[83]



Source: ONS, labour productivity level, quarterly data, series LZVB (24 Oct 2023 update)

Since 2019, during and following the pandemic, productivity growth has remained subdued. This suggests that the challenge of weak productivity remains.

One consequence of this has been stagnation in earnings. Average real (inflation-adjusted) weekly earnings are no higher at the end of 2023 than they were before the 2008 to 2009 recession.[84]

There are many things thought to boost productivity, however, it is difficult to be sure how important each individual element is given the difficulty in measuring productivity and the complexity of the economy.

Investment (from businesses and government), the quality of infrastructure, and the skills of the labour force are some of the more commonly cited factors thought to boost productivity growth.

The Government's approach to boosting UK productivity was set out by the Chancellor in January 2023 under the package of measures contained under

[81] UK productivity commission, Productivity in the UK: Evidence Review, June 2022

[82] OECD, OECD Compendium of Productivity Indicators 2023, February 2023

[83] Library calculations based on ONS series LZVB; compound annual average growth rates shown

[84] ONS labour market dataset X09, Real Average weekly earnings using Consumer price inflation (seasonally adjusted), November 2023 edition of the dataset

what he called the "four Es" of economic growth: employment, enterprise, education, and everywhere (referring to the levelling up agenda).[85]

Specific policy measures, for example related to investment, are summarised in section 3.1 and in a September 2023 response to a parliamentary question made by Exchequer Secretary Gareth Davies, who said:[86]

> The Government has introduced several fiscal measures to increase productivity. For example, we have introduced full expensing – giving the UK the most generous capital allowances regime in the OECD on a Net Present Value basis to increase business investment and boost labour productivity. We increased the R&D Expenditure Credit relief rate to 20% – the joint highest uncapped headline rate of R&D tax relief in the G7 for large companies.
>
> We are supporting our world leading green industries. For example, up to £20bn of funding has been provided for Carbon Capture, Utilisation and Storage, and we are working with investors through our Automotive Transformation Fund to build a globally competitive electric vehicle supply chain in the UK. Furthermore, the Investment Zones programme will catalyse 12 high potential knowledge-intensive growth clusters across the UK.
>
> We are also ensuring our labour market is more productive through our investment in skills and the Chief Secretary is currently leading a programme across government to identify the most ambitious ways to improve productivity in the public sector.

85 Treasury, Chancellor Jeremy Hunt's speech at Bloomberg, 27 January 2023

86 PQ 197498 [on Productivity], 12 September 2023

3 Outlook for the public finances

In this section we look at the public finances and the forecasts by the Office for Budget Responsibility (OBR) made in March 2023 alongside the Spring Budget. We look at what has happened since the 2023 Spring Budget and set out the Treasury's priorities for the Autumn Statement.

The OBR is the public finances watchdog. It produces the official forecasts for the economy and public finances used by the Chancellor (see box 1 below).

In March 2023, the OBR said the economy faced "significant structural challenges" but that the economic outlook was a little better than in its previous forecast of November 2022. The modest improvement in the economic outlook flowed through to "a somewhat brighter outlook for the public finances" particularly due to higher tax receipts.[87]

At the 2023 Spring Budget the Chancellor used two-thirds of the underlying improvement in the public finances as the basis to announce new spending and tax policies. These policies included: extending free childcare from April 2024, measures to support and encourage people into work, changes to pensions tax allowances and full expensing of investment against corporation tax.

The Library briefing Spring Budget 2023: A summary lists the key announcements from the Budget and discusses the forecasts.

3.1 Government borrowing

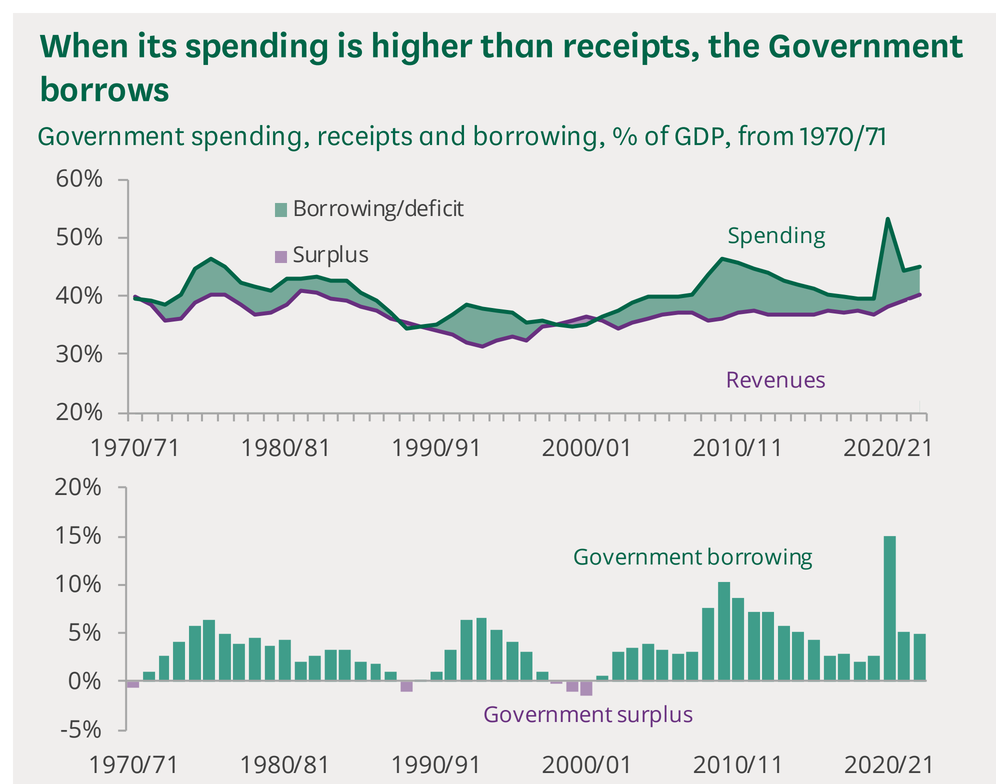
Borrowing was relatively high in 2022/23

When a government spends more than it receives from taxes and other sources (its receipts), it borrows money, mainly from financial institutions.

In 2022/23, government revenue from taxes and other receipts was £1,023 billion (£1.02 trillion) and government spending was £1,151 billion (£1.15 trillion). Government borrowing was therefore £128 billion, equivalent to 5.0% of GDP. The gap between government spending and revenues is often referred to as the budget deficit. Government borrowing and the budget deficit are different terms for the same thing.

[87] OBR. Economic and fiscal outlook – March 2023, para 1.11

Borrowing reached a peacetime record of 15% of GDP in 2020/21, largely because of the Covid-19 pandemic.[88] While borrowing of 5.0% of GDP in 2022/23 is significantly lower, it is still higher than the 50-year average of 3.8% of GDP.[89] This is shown in the chart below.



Notes: For the spending and receipts chart, the y-axis does not start at 0

Source: Office for Budget Responsibility (OBR). Public finances databank – August 2023

Spending and tax revenues were relatively high in 2022/23

Government revenues and spending were relatively high in 2022/23, as shown in the chart below.

At 36.5% of GDP, government tax revenues in 2022/23 were at their highest level since the late 1940s. If we add in other non-tax receipts, such as interest payments on government assets and income generated by state-owned corporations, total government revenues were 40.1% of GDP in 2022/23. [90]

Government receipts were last as high in the early 1980s, when the public sector included more nationalised industries. The income of such industries

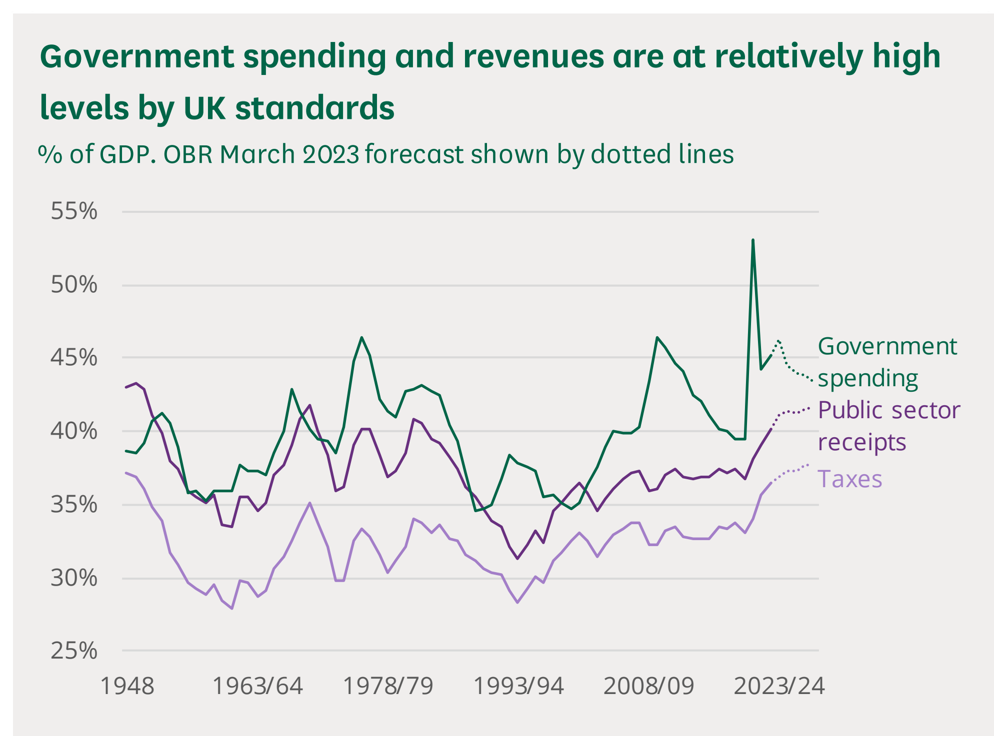
[88] The Library briefing Coronavirus: Economic impact discusses how the pandemic affected public finances. The briefing, Public spending during the Covid-19 pandemic looks at UK public spending to address the pandemic.

[89] Office for Budget Responsibility (OBR), Public finances databank – October 2023

[90] For more on the rise in the tax-to-GDP ratio see para 40 of OBR – EFO November 2022

added to government revenues. The Library briefing Tax Statistics: an overview discusses recent trends in government revenues.

At 45.1% of GDP, government spending was at its highest non-crisis level since the mid-1970s, ignoring the pandemic or the years immediately following the 2007 to 2009 financial crisis. The Library briefing Public spending: a brief introduction delves further into government spending.



Notes: Y-Axis begins at 25% not 0%
Source: OBR. Public finances databank – August 2023

What's happening to borrowing in 2023/24?

Borrowing in 2023/24 is forecast to be similar to in 2022/23

In its latest forecast (March 2023), the OBR forecast government borrowing of £132 billion in 2023/24, equivalent to 5.1% of GDP.[91] Both spending and receipts were forecast to be around 1% of GDP higher in 2023/24 than in 2022/23, which leaves borrowing little changed from 2022/23.

The Government's spending priorities have changed, compared with 2022/23. Less support is being provided to households and businesses with energy costs, while welfare spending is increasing due to benefits being uprated by high inflation and because the Government has provided more cost-of-living payments. Spending on debt interest remains high.

[91] OBR. Economic and fiscal outlook – March 2023, 15 March 2023

Freezes to income tax thresholds since April 2021 are set to add around 0.5% of GDP to receipts in 2023/24.[92] The Government has frozen both the income-tax-free allowance (known as the personal allowance) and the point at which people start paying the 40% higher rate of income tax (the higher rate threshold). Normally, both would rise by inflation, but they are frozen at their April 2021 level until April 2028. An extra 2.2 million people are expected to pay income tax in 2023/24 because of the personal allowance freeze, and an extra 1.3 million people are expected to pay the 40% higher rate.[93]

The Library briefing Fiscal drag: An explainer discusses the freezing of income tax thresholds.

1 What is the Office for Budget Responsibility?

The Office for Budget Responsibility (OBR) is the UK's official independent forecaster of the economy and public finances. It produces the forecasts used by the Chancellor in the Autumn Statement, Budget and other similar events.

The OBR was established within days of the Coalition Government coming to power in May 2010, with the aim of improving the credibility of forecasts and public finance (fiscal) policy.

Alongside its forecasts, the OBR assesses whether the Government's policies have a better than 50:50 chance of meeting the Chancellor's targets for the public finances. The OBR also examines the long-term sustainability of the public finances, risks surrounding the public finances, spending on welfare and devolved taxes.

Richard Hughes, who held senior roles at the Treasury and International Monetary Fund (IMF), has been the chair of the OBR since October 2020.

Further information is available the Library briefing The Office for Budget Responsibility.

How does the OBR produce its forecasts?

The Chancellor commissions the OBR to produce its forecasts, usually giving it at least 10 weeks' notice. The OBR produces two forecasts each financial year, which usually accompany the Budget and another fiscal statement, such as the Autumn Statement.

The forecast is produced using an iterative process over several rounds. The OBR produces several draft forecasts which it presents to the Chancellor. In the early rounds the forecasts do not include the Chancellor's potential new policy measures. These 'pre measures' forecasts draw on data released since the previous forecast and judgements on the outlook for the economy. The

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92 OBR. Economic and fiscal outlook – March 2023, Box 3.2; OBR. Public finances databank – October 2023

93 OBR. Economic and fiscal outlook – March 2023, Box 3.2 (PDF)

Chancellor's policy measures are added into the forecast in the latter forecast rounds.

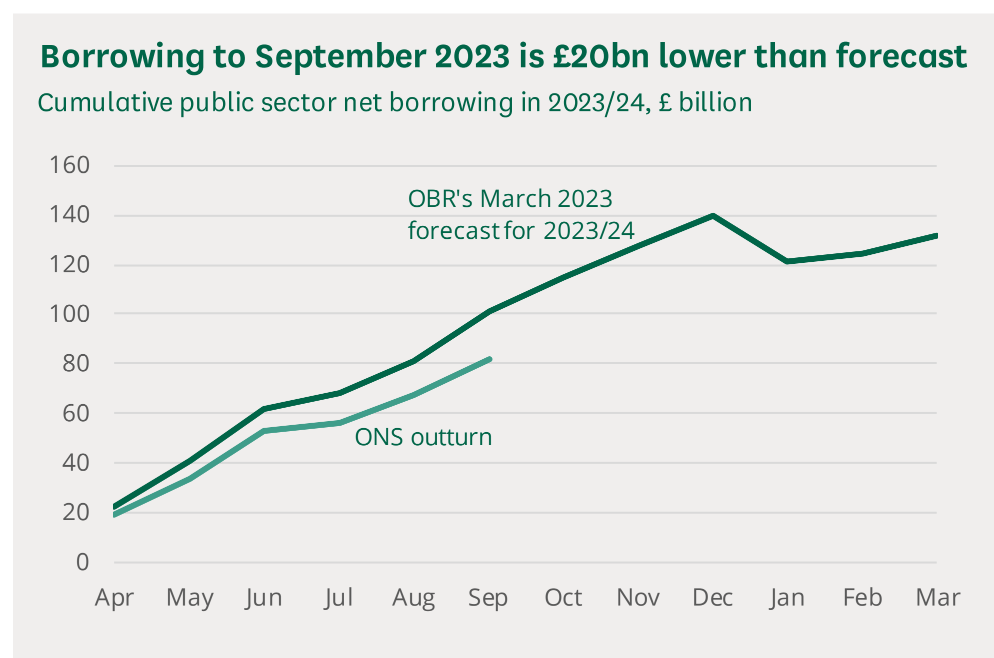
Government departments produce estimated costs for the Chancellor's potential policy measures. As part of the forecast process, the OBR scrutinises these estimates until it is happy to endorse them as 'reasonable and central'.

The forecast process is set out on the OBR's website.

Borrowing in 2023/24 may be lower than the OBR forecast

Government borrowing in the first six months of 2023/24 is £20 billion lower than the OBR forecast, as shown in the chart below.[94] This is largely due to the strong performance of government receipts. Receipts from onshore corporation tax, income tax, National Insurance contributions (NICs) and VAT have all been larger than forecast during the first half of 2023/24.[95]

In October 2023, the Institute for Fiscal Studies (IFS), an economics think-tank, forecast that borrowing across the whole of 2023/24 could be £112 billion, which is £20 billion lower than the OBR forecast in March 2023. Such a level of borrowing is equivalent to 4.2% of GDP.[96] The average view among economists surveyed by the Treasury in October is that borrowing could be around £10 billion lower in 2023/24 than the OBR forecast in March.[97]



Sources: Office for National Statistics. Series J5II (accessed on 20 October 2023); OBR. March 2023 Economic and fiscal outlook monthly profiles

94 ONS. Public sector finances, UK: September 2023, 20 October 2023

95 OBR. Commentary on the public sector finances – September 2023

96 IFS. Green Budget 2023, Chapter 3, page 28

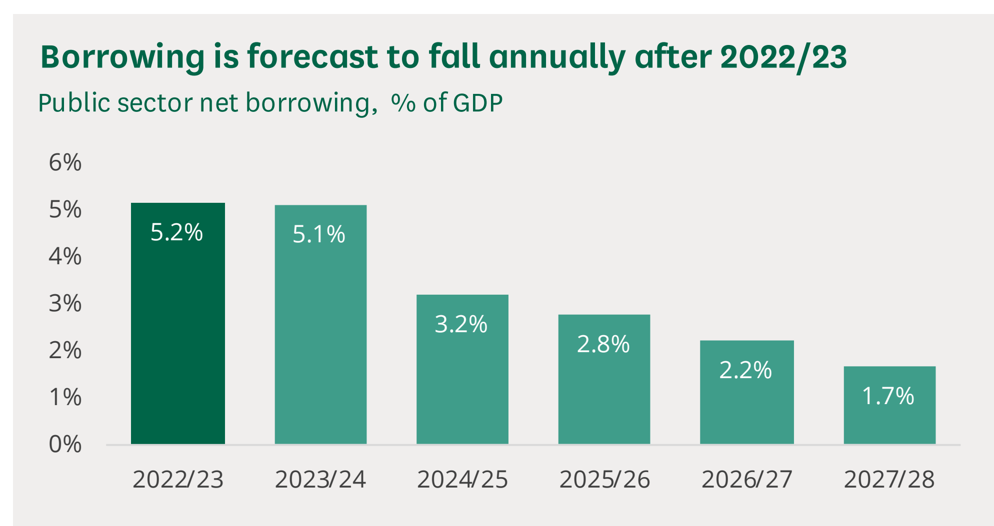
97 HM Treasury. Forecasts for the UK economy: October 2023, 18 October 2023

The Office for National Statistics (ONS) will publish borrowing data for September 2023 on 21 November, which is the day before the Autumn Statement. Commentary on the figures will be available from the ONS's statistical release, the OBR's monthly commentary and the Library's short briefing Public Finances: Key Economic Indicators.

Borrowing is forecast to fall over the next five years

In March 2023, the OBR forecast that borrowing would fall annually after 2022/23, dropping to around 1.7% of GDP by 2027/28, as shown in the chart below. As we explain below, this meant the Chancellor was meeting his target for borrowing.

Support for energy costs and the cost of living are set to end in 2023/24, reducing government spending and the borrowing required to fund it. Borrowing was forecast to fall further after 2023/24; this was broadly due to a growing economy and tax rises and spending cuts announced in the Autumn Statement 2022.



Source: OBR. Public finances databank – August 2023

More recent forecasts from the IFS (October) and the Resolution Foundation (November), a living standards think tank, also show borrowing falling.

The IFS has produced two forecasts based on different economic scenarios. In its baseline scenario, the IFS forecasts higher borrowing than the OBR in all years after 2023/24 but still expects borrowing to fall from year to year.[98]

The IFS's other forecast considers an alternative economic scenario – an 'upside' scenario – where the cash size of the economy is larger due to persistent inflation.[99] This forecast tells a similar story to the Resolution Foundation's forecast. In both forecasts, tax revenues are boosted by the UK

[98] IFS. Green Budget 2023, Chapter 3, page 14

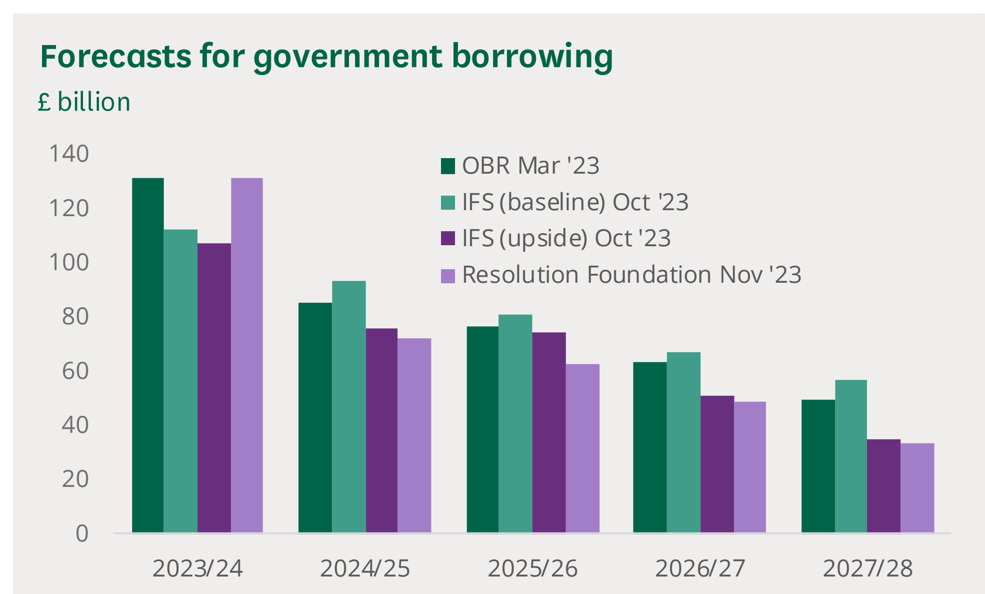
[99] IFS. Green Budget 2023, Chapter 3, page 14

economy being larger, in cash terms. Inflation also pushes up spending on welfare and debt interest.

The higher inflation does not, however, raise public service spending plans. Public service spending plans are fixed in cash terms by the Chancellor. Higher inflation, therefore, leaves the cash spending on public services unchanged but erodes the real-terms values of public service spending. In other words, higher inflation makes the spending plans less generous than originally intended.

The higher tax revenues outweigh the higher spending so lower forecast borrowing is the net result. The Resolution Foundation says this is an 'illusion' and suggests that it's likely public service spending plans will have to rise if inflation is persistent. It points out that rising wages in the public sector are already putting pressure on public service spending.[100]

The OBR, IFS, and Resolution Foundation estimates for government borrowing for the next five years are shown in the chart below.



Source: OBR. Economic and fiscal outlook – March 2023; IFS. Green Budget 2023, 17 October 2023; Resolution Foundation. Preparing the pitch, 6 November 2023

The borrowing target is being met in the OBR's forecast

One of the targets for the public finances, set out in the Charter for Budget Responsibility, is that borrowing should not exceed 3% of GDP in the fifth year of the OBR's forecast. In March 2023, the OBR forecast that borrowing would be below 3% of GDP in 2027/28, so the Chancellor is on course to meet the borrowing target.[101] The Library briefing The UK's fiscal targets discusses the

[100] Resolution Foundation. Preparing the pitch Autumn Statement 2023 preview, 6 November 2023
[101] HC Deb 6 February 2023 [Charter for Budget Responsibility].

public finances targets, which include targets for government borrowing and debt.

When the OBR's March 2023 forecast was completed, 2027/28 was the fifth year of the forecast and borrowing was forecast to be 1.7% of GDP. The target was therefore being met with a margin of around 1.3% of GDP, which is equivalent to £39 billion.[102]

The OBR will judge whether the Chancellor is still on course to meet the target when it publishes its revised forecast on 22 November. The OBR's November 2023 forecast is being produced in 2023/24, so the target year will roll onto 2028/29 which will be the fifth year of the OBR's forecast.

The IFS says that the borrowing target is "very loose by UK historical standards":

> On virtually every occasion in the 43 years since 1980 (outside of the global financial crisis and the COVID-19 pandemic), the Chancellor at the time could have increased planned borrowing without breaching this target.[103]

Spending and revenues are forecast to be higher in 2027/28 than before the pandemic

As well as being within the target, borrowing in 2027/28 was forecast to be lower than it was before the pandemic. Both government spending and receipts were forecast to be above their pre-pandemic levels, but with a bigger increase in receipts. Government receipts were set to be 5% of GDP larger than in 2019/20, whereas government spending was set to be around 4% of GDP larger.

Forecasted increases to income tax and corporation tax receipts

Income tax and corporation tax contribute significantly to the growth in tax receipts forecast between 2019/20 and 2027/28. Policy plays a part in growing the receipts of both taxes. Key income tax thresholds have been frozen since April 2021 and the main rate of corporation tax rose from 19% to 25% from April 2023.[104]

The freezes to income tax thresholds between April 2021 and April 2028 are significant revenue raisers.[105] In March 2023, the OBR forecast that the freezes to the personal allowance and higher rate threshold freeze could raise around £25.5 billion in 2027/28. The IFS estimates that the revenue raised could be closer to £40 billion, based on the Bank of England's August 2023

102 OBR, Economic and fiscal outlook – March 2023 (PDF), para 5.6

103 IFS. Green Budget 2023, Chapter 3, page 1

104 For more on the rise in the tax-to-GDP ratio see para 37 of OBR – EFO November 2022

105 In the Spring 2021 Budget the personal allowance and the higher rate threshold were frozen for the four-year period 2022/23 to 2025/26. In Autumn Statement 2022 both the personal allowance and the higher rate threshold were frozen for an additional two years, up to April 2028.

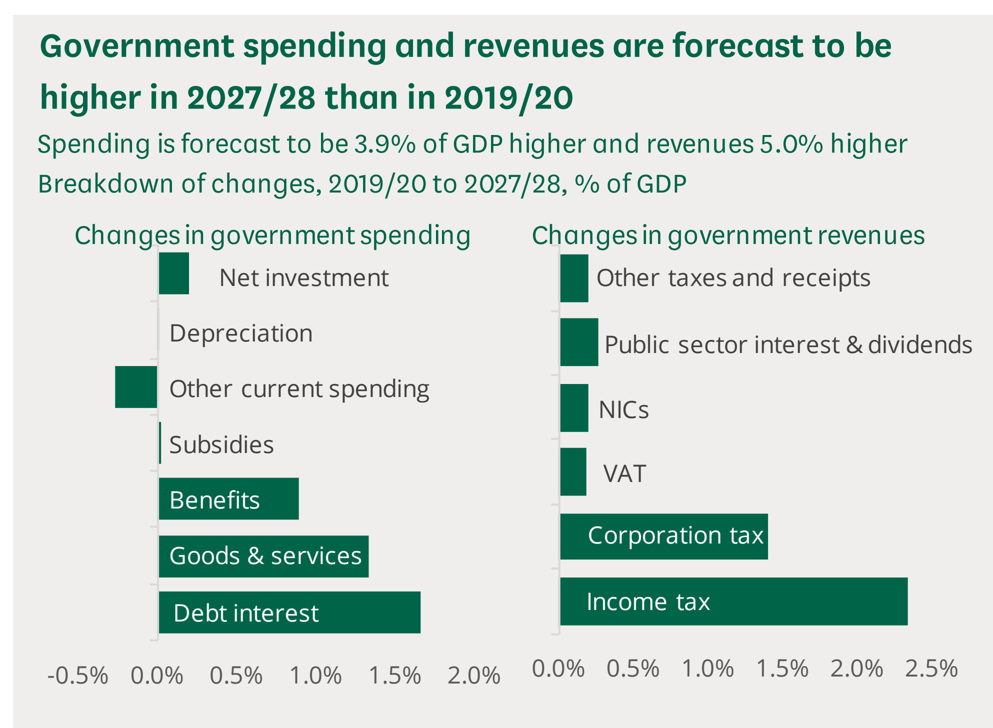
inflation forecast.[106] The OBR forecast that the freezes could generate 3.2 million new taxpayers and 2.1 million new higher-rate taxpayers. [107] There's further information about the freezes in the Library briefing papers Spring Budget 2021: personal allowance and higher rate threshold and Fiscal drag: An explainer.

More spending than before the pandemic on debt interest, benefits and public services

The Government is forecast to spend more on debt interest in 2027/28 than in 2019/20. This is discussed further in section 3.3. Spending on benefits was forecast to be higher largely because inflation was forecast to outstrip economic growth. Most benefits are traditionally increased by inflation.

As Chancellor, Rishi Sunak increased departments' day-to-day spending budgets. Jeremy Hunt reversed around a third of the increase, but departments' budgets were still forecast to be higher in 2027/28 than before the pandemic.[108]

The forecast changes in spending and revenue between 2019/20 and 2027/28 are shown in the chart below.



Sources: OBR. Public finances databank – October 2023; ONS, Public sector finances borrowing by subsector, 21 November 2023; OBR, EFO – March 2023, supplementary table 3.3; ONS, Series BKTL

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106 IFS, Green Budget 2023 (PDF), Chapter 3, p 5

107 OBR. Economic and fiscal outlook – March 2023. Box 3.2 (PDF)

108 OBR. Economic and fiscal outlook – March 2023, supplementary table 3.3

Risks to the borrowing forecasts and the Chancellor's choices

Borrowing forecasts are very uncertain. Government borrowing is the difference between revenues and spending – each exceed £1 trillion. Small errors in forecasting these numbers can make a large difference to the forecast for borrowing. Some risks to the borrowing forecasts are already known.

Future spending plans could be increase closer to the time

There is scepticism about whether the Chancellor's spending plans after 2024/25 are achievable. Some commentators expect spending to increase when the time to allocate budgets to departments comes, which would traditionally be at a spending review. The Resolution Foundation calls the plans pencilled in by the Chancellor "undeliverable" while the IFS says that sticking to the plans "is likely to prove extremely challenging" given the Government's ambitions in several areas.[109] If spending increases but receipts do not, borrowing will have to increase to cover the difference.

The Chancellor's existing plans are characterised as 'challenging' because they would mean an average real-terms spending increase of 1.1% in each year between 2025/26 and 2027/28.[110] The plans for the latest spending review period (2021 Spending Review) called for current spending to increase by an average of 2.0% each year (even after accounting for the recent increases in inflation).[111]

If spending had instead increased by 1.1% per year over this period, the Government would have had to consider spending cuts in some departments. For example, if the Government had still chosen to fund its increases in the budget for the Department of Health and Social Care (an average real-terms increase of 2.8% per year), the average spending increase for all other departments would have been 0.0%. This implies that real-terms increases for any other department would have had to be balanced out by equally large cuts elsewhere.

The OBR highlights a tendency for governments to top up their pencilled in spending plans when the "difficult moment" of allocating them out to departments in spending reviews approaches.[112] We can see this tendency in the chart below, which shows how spending plans in the 2021 Spending Review increased substantially over time.

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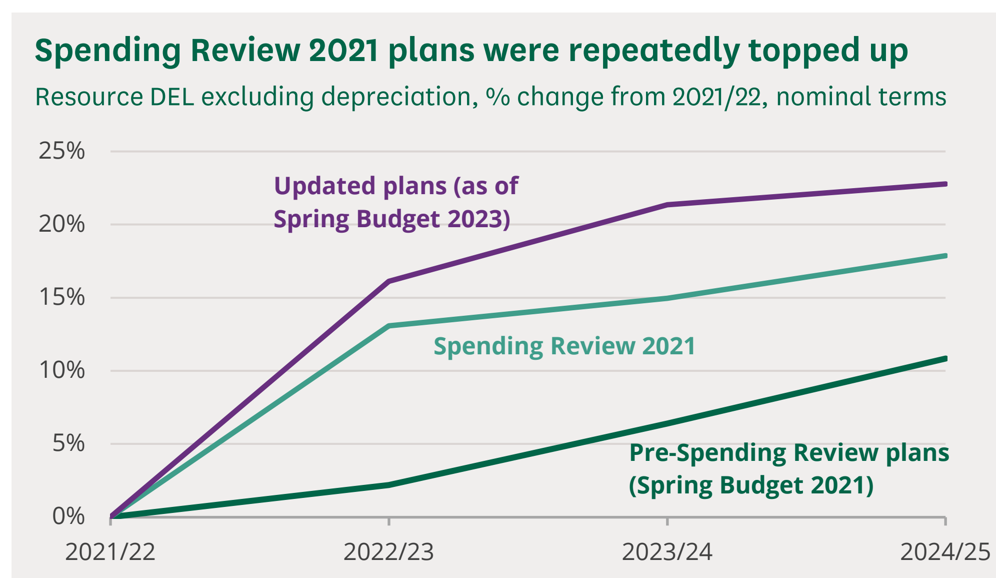
[109] Resolution Foundation. Preparing the pitch: Autumn Statement 2023 preview, 6 November 2023, page 23 (PDF); IFS. Green Budget 2023, October 2023, page 169 (PDF)

[110] HM Treasury, Spring Budget 2023, 21 March 2023, table 2.3 (resource DEL excluding depreciation)

[111] HM Treasury, Autumn Budget and Spending Review 2021, 21 February 2023, table E.1, adjusted for inflation using GDP deflator forecasts from OBR, Public finances databank, 22 October 2023

[112] OBR. Economic and fiscal outlook – March 2023, para 4.88 (PDF)

The OBR will reflect on the implications of this pattern of government behaviour in its Autumn Statement forecast.[113] Nevertheless, the OBR will continue to use the public service spending plans set out by the Chancellor in its forecast.



Note: Excludes spending on energy bills support.

Source: HM Treasury, Spring Budget 2023, 21 March 2023, table 2.3 (resource DEL excluding depreciation);Autumn Budget and Spending Review 2021, 21 February 2023, table E.1; Spring Budget 2023, 21 March 2023, table 2.1

Fuel duties haven't increased since 2011

As the Library briefing Background to Spring Budget 2023 explains, rates of fuel duties have not risen since 1 January 2011, but the OBR's forecasts continue to assume that they will increase by inflation each year.

The OBR is obliged to base its forecast on government policy, which is that the rate of fuel duty will rise every year by inflation. Since 2011, the inflationary increase has been cancelled by the Government each year, overriding its stated policy.

If the Government continues to cancel the inflationary increase and doesn't end the temporary 5p cut to fuel duty,[114] revenues will be around £4 billion lower in 2027/28.[115]

The Chancellor wants permanent 'full expensing'

Another known risk comes from corporation tax capital allowances. The 2023 Spring Budget temporarily introduced full expensing for corporation tax. For

[113] OBR. Forecast evaluation report – October 2023, para 1.13 (PDF)

[114] The Government temporarily reduced main rates of petrol and diesel by 5 pence per litre (and other rates proportionately) for 12 months from April 2022. For further information see, HMRC Temporary extension to the cut in Fuel Duty rates

[115] OBR. Economic and fiscal outlook – March 2023, para 5.7 (PDF)

three years, this allows companies to deduct the full cost of their expenditure on IT equipment, plant or machinery from their taxable income when this business investment is made, reducing the amount of tax they must pay.[116] The Chancellor says he wants to make the temporary measure permanent "as soon as we can responsibly do so".[117] Business leaders are calling for him to do so in the Autumn Statement.[118]

The OBR estimated that it would cost around £10 billion a year to make full expensing permanent in the medium term.[119] However, the IFS says that this gives a "vastly inflated impression of the long-run cost of the policy" because firms get full expensing upfront rather than a stream of capital allowances.[120]

As firms get to claim more tax relief upfront, but less further down the line, the IFS estimates that the ultimate true cost of full expensing is between £1 billion and £3 billion for each year the policy is in place.[121] However, if the Chancellor were to make full expensing permanent, the cost used in the forecast would be the OBR's medium-term estimate of around £10 billion.

The Library briefing Corporate tax reform has further information on full expensing.

Uprating working-age benefits

As the Library briefing How benefit levels are set explains, each year the Government is required to review the level of benefits to determine whether they have retained their value in relation either to prices or earnings. Recent practice has been to uprate working-age benefits by reference to September's annual rate of inflation (since 2011, the Consumer Prices Index; CPI) in uprating orders coming into force in the following April. However, over the past decade, a series of below-inflation increases and freezes have been applied to working-age benefits.

CPI was 6.7% for the 12 months to September 2023.[122] The Government has yet to confirm whether it will uprate working-age benefits by this level for 2024/25.[123] There has been speculation that the Chancellor may depart from recent practice and uprate some benefits by less than this amount.[124] This

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116 See the Library briefing Corporate tax reform or the IFS's Full expensing and the corporation tax base for further information.

117 HC Deb 15 March 2023 c833-847

118 "Better UK productivity requires longer-term tax breaks, say business leaders", FT, 6 November 2023

119 OBR. Economic and fiscal outlook – March 2023, para 4.88 (PDF)

120 IFS. Full expensing and the corporation tax base, 6 October 2023

121 IFS. Full expensing and the corporation tax base, 6 October 2023

122 ONS. Series D7G7

123 PQ 203714 [on Social Security Benefits: Uprating, 20 October 2023

124 Resolution Foundation. Rates of change The impact of a below-inflation uprating on working-age benefits, 14 October 2023; "UK ministers explore cutting working-age benefits in real terms", Financial Times, 8 September 2023; "UK Weighs Curbing Benefits Rise to Give Room for Spring Tax Cuts", Bloomberg, 8 September 2023

would reduce spending on these benefits and would affect households receiving the benefits.

How much increasing benefits by less than CPI inflation saves the Government depends on which benefits are included and what value they are uprated by. There is a statutory duty to uprate some benefits by at least the general level of prices, although the precise measure for this is not stipulated in legislation.[125] This applies to extra-costs disability benefits, such as Personal Independence Payment and Attendance Allowance, and other benefits such as Carer's Allowance. Increasing these by a measure below inflation would require primary legislation.

For other working-age benefits – such as Universal Credit, other means-tested benefits, and contributory benefits – the statutory duty on the Government is to "have regard to the national economic situation" and increase these benefit rates by such a percentage as it thinks fit.[126]

The Resolution Foundation estimates that freezing working-age benefits where there is no statutory duty to uprate by prices would save around £4 billion, although it says that a freeze would be the "most extreme scenario".[127] The Chancellor could decide to uprate benefits by a lower rate than September's CPI measure of 6.7%. The OBR's March 2023 forecast assumed that September's CPI would be 5.4% so any increase higher than this would increase the OBR's forecast for welfare spending, other things being equal.[128] The Chancellor is rumoured to be considering using October's CPI of 4.6% to uprate working-age benefits.[129]

The Resolution Foundation's Rates of change: The impact of a below-inflation uprating on working-age benefits looks at the potential savings and impacts, as well as the broader context of not uprating benefits by September's CPI. It considers how such a change would affect the benefits system and the living standards of those on lower income:[130]

> A decision not to uprate working-age benefits in line with inflation would affect more than four-in-ten (9 million) working-age households in the UK. And the losses for many would be material: if key benefits were frozen, a single adult working at least 20 hours a week at minimum wage with an illness or disability claiming UC would see their annual income fall by £610, for example; a working couple with two children on UC earning the same would experience a £1,202 shortfall over the course of the year; and a similar working couple with three children in receipt of UC would suffer a dramatic £1,622 fall to their income next fiscal year.

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125 Section 150(2)(a) of the Social Security Administration Act 1992. For more information see section 1.1 of Benefits Uprating 2022/23

126 150(1) and (2)(b) of the Social Security Administration Act 1992

127 Resolution Foundation. Rates of change The impact of a below-inflation uprating on working-age benefits, 14 October 2023

128 OBR. Economic and fiscal outlook – March 2023, supplementary table 1.7

129 "Decision on welfare could save Jeremy Hunt an extra £2bn", The Times, 15 November 2023

130 Resolution Foundation. Rates of change The impact of a below-inflation uprating on working-age benefits, 14 October 2023

The State Pension triple-lock

The Government hasn't confirmed whether the State Pension 'triple lock' will be used to uprate State Pensions in April 2024. The Government is required by law to increase the basic and new State Pension each year at least in line with average earnings growth. The triple lock is a Government commitment, beyond this legal requirement, to increase State Pensions by whichever is highest of average earnings growth, inflation, or 2.5%.

If the triple lock is used, State Pensions could rise by 8.5% in April 2024 in line with the average weekly earnings (AWE) figure for annual growth in May to July, published in September 2023. This follows a 10.1% increase in April 2023 because CPI in the twelve months to September 2022 was 10.1%.

The OBR's March 2023 forecast assumed that the triple lock would increase the State Pension by 6.2% in April 2024, which is lower than the 8.5% now possible.[131] The higher rate will increase the OBR's forecast for State Pension spending in the upcoming forecast, all other things equal.

The Library Insight The triple lock: How will State Pensions be uprated in future? cites an article in the Financial Times that reported the Government is considering excluding bonuses from the average earnings calculation for next year's uprating.[132] This could mean that State Pensions increase by 7.8% instead of 8.5%. This lower measure of earnings would still be higher than the 6.2% increase the OBR assumed in its March 2023 forecast.

Changes to the Work Capability Assessment

The Chancellor may announce changes to the Work Capability Assessment (WCA) at the Autumn Statement. The WCA assesses fitness for work and is used to determine entitlement to Employment and Support Allowance, the additional health-related amount in Universal Credit, and what if any work-related conditionality requirements claimants are subject to.

Earlier in the Autumn, the Government launched a consultation on proposals to make several changes to the activities and descriptors used as part of the WCA, which ran until 30 October 2023.[133] The Secretary of State says the proposals would give those who can work "the right support and opportunities to move off benefits and towards the job market".[134]

The proposed changes would, if implemented, either reduce the number of points awarded for, or remove entirely, four activities considered in the assessment to determine whether someone has limited capability for work or work-related activity: mobilising, continence, social engagement, and getting about. If someone is assessed as having limited capability for work-related activity, they are eligible for an additional amount in Universal Credit (or the

131 OBR. Economic and fiscal outlook – March 2023, Table A.3
132 "UK government weighs change to 'triple lock' to limit pension increase", FT, 12 September 2023
133 DWP press release, Government announces new welfare reforms to help thousands into work, 5 September 2023
134 HC Deb 5 September 2023 c213-214

Support Component in the Employment and Support Allowance) and do not have any work-related requirements.

The Library briefing Proposals to abolish the Work Capability Assessment explains the consultation's proposals in more detail (section 1.1). The proposals would be implemented ahead of the Government's long-term ambition to abolish the WCA entirely.

The Resolution Foundation estimates that through the proposed changes "2.8 million adults are at risk of losing support, three-quarters of whom are from the lower half of the income distribution." It notes that while changes are proposed to only four of the 17 functional activities and descriptors used in the WCA, a majority (87%) of adults in receipt of means-tested health-related benefits have problems with their mobility or mental health, or have social or behavioural problems, and so could be impacted by these changes.[135]

Any changes would only impact new claims or claims which are re-assessed. They would become irrelevant once the WCA is abolished but they could reduce spending in the intervening period.[136] The Government says that if the changes go ahead, the savings will be included in the OBR's Autumn Statement forecast.[137]

There's further information about changes to the WCA in the Resolution Foundation's Reassessing the Work Capability Assessment and the Government's intention to abolish the WCA entirely in the IFS's The effects of reforms to the Work Capability Assessment for incapacity benefits.

3.2 Government debt

More borrowing means more government debt

The government borrows by selling bonds, which are widely known as gilts.[138] These are essentially 'IOUs' which the Government pays interest on. Government debt is largely the stock of the borrowing arising from many years of past budget deficits.

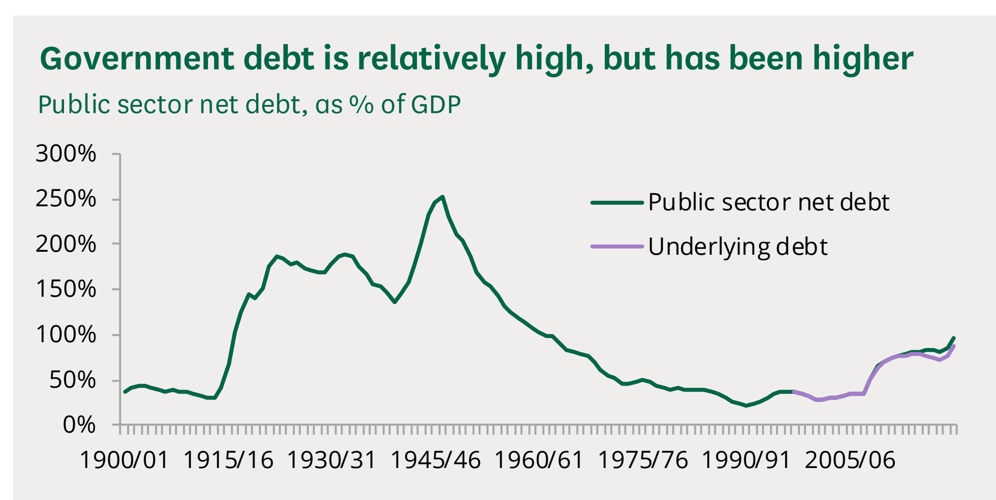
Government debt was £2.6 trillion (£2,599 billion) at the end of September 2023, which is equivalent to around 97.8% of GDP. [139] The Bank of England is part of the public sector, so its debt is included in this measure. If we exclude the Bank of England's net debt, we get a measure of government 'underlying'

135 Resolution Foundation. Preparing the pitch Autumn Statement 2023 preview, 6 November 2023
136 IFS. Green budget 2023, page 24 (PDF)
137 DWP press release, Government announces new welfare reforms to help thousands into work, 5 September 2023
138 The Debt Management Office (DMO) is the Treasury's agency that is responsible for debt and cash management for the UK Government.
139 Technically speaking, government debt is public sector net debt. ONS Series HF6X and HF6W

debt, which is equivalent to 89.3% of GDP.[140] Both measures of government debt are around 17% to 18% of GDP higher than before the pandemic.[141]

Underlying government debt (excluding the Bank of England) is said to be more closely associated with government choices around spending and tax than the measure including the Bank. It is thought to be a better measure of the government's underlying debt because it removes some Bank of England schemes that add to debt only temporarily. [142] It is the measure of debt used in the Government's debt target.

The government's debt as a percentage of GDP since 1900/01 is shown in the chart below. Debt has increased by nearly 50% of GDP over the past 15 years. Much of the increase happened during the 2007-2009 financial crisis and the Covid-19 pandemic.[143] Government debt was last as high as it is today in the 1960s. It has been higher, particularly after periods of war.



Source: OBR, Public finances databank – August 2023 (accessed on 18 September 2023)

In March 2023, the OBR forecast that the government's underlying debt (excluding the Bank of England's net debt) would increase before reaching 94.8% of GDP at the end of 2026/27. Debt would then fall to 94.6% of GDP in 2027/28. For much of the period, the amount of debt was forecast to grow faster than GDP, largely due to government borrowing.

The Chancellor is on course to meet the debt target…

As the government's underlying debt (excluding the Bank of England) is forecast to fall between 2026/27 and 2027/28, the Chancellor is on course to meet the debt target.

140 ONS, Series CPOA

141 Comparison here is with August 2019. The GDP measure used in the debt-to-GDP ratio spans six months either side of the point in time at which you are measuring GDP. August 2019 is the final measure of debt-to-GDP in which the GDP figure isn't affected by the Covid-19 pandemic.

142 IFS, Green Budget 2021 (PDF), October 2021, Box 3.1; HM Treasury, Autumn Budget and Spending Review 2021 (PDF), para A.21

143 OBR. Economic and fiscal outlook – March 2023, Box 5.1

Another of the 'fiscal targets', this rule, set out in the Charter for Budget Responsibility,[144] is that the underlying debt-to-GDP ratio should be falling by the fifth year of the OBR's forecast period. In the OBR's March 2023 forecast, debt was forecast to fall by 0.2% of GDP (a margin of £6.5 billion) in the fifth year (2027/28).[145] Government debt was forecast to be 94.8% of GDP in 2026/27 and 94.6% of GDP in 2027/28. This margin by which the target is being met is often described as the Chancellor's 'headroom'.

The OBR will judge whether the Chancellor is still on course to meet the debt-to-GDP target when it publishes its revised forecast on 22 November. The OBR's November 2023 forecast is being produced in 2023/24, so the target year will roll onto 2028/29 which will be the fifth year of the OBR's forecast.

Reports suggest that the OBR's initial forecast, before the Chancellor's new policies are included, shows the debt target being met by around £15 billion.[146] This is higher than the £6.5 billion of headroom forecast in March 2023 but is similar to the level of headroom if the Chancellor hadn't made any policy announcements in the 2023 Spring Budget.[147]

History suggests that the Chancellor is likely to use any additional headroom forecast by the OBR to fund new policies. The IFS reported that Chancellors tend to spend the windfall from improvements in the public finance forecasts but allow borrowing to rise if the forecast deteriorates. This leads to a ratcheting effect over time which the IFS says "should be stopped".[148]

One of the Prime Minister's five priorities for 2023 is to "make sure our national debt is falling so that we can secure the future of public services."[149] This is separate from the debt target discussed above. Unlike the debt target, the Prime Minister's pledge does not have an explicit timescale attached.

...but reversing rising debt is challenging

While the OBR expected the Chancellor's plans would meet the debt target, it said that he "faces a tougher challenge than any of his post-financial crisis predecessors in turning around the sustained rise in the debt-to-GDP ratio".[150]

With growth forecast to remain low, the Chancellor gets less help from the GDP part of the debt-to-GDP ratio. In addition, interest rates are significantly higher than in the recent past and they are acting on a higher debt stock,

144 HM Treasury. Charter for Budget Responsibility, 26 January 2023

145 OBR. Economic and fiscal outlook – March 2023, para 5.6 (PDF)

146 "Hopes for autumn statement tax cuts as Jeremy Hunt finds wiggle room" The Times, 12 November 2023; "Around £15billion of headroom could be used to halve inheritance tax to 20 per cent at Autumn Statement", The Sun, 12 November 2023; "Hope for stamp duty and inheritance tax cuts in Autumn Statement as Hunt is told he has more fiscal 'headroom'", Mail Online, 13 November 2023

147 OBR. Economic and fiscal outlook – March 2023, Table 5.1 (PDF)

148 IFS. Green Budget 2023, October 2023, page 152 (PDF)

149 10 Downing Street Press Release. Prime Minister outlines his five key priorities for 2023, 4 January 2023

150 OBR. Economic and fiscal outlook – March 2023, Box 5.1

which means "for any given level of borrowing, more must be spent on debt interest and less on other priorities."

There has also been growth in items other than borrowing which add to debt.[151] Most of these other items arise because government debt and government borrowing are measured in different ways. Debt is a cash measure, which is recorded based on when cash is paid and received. Borrowing is measured on an accrual basis, which means transactions are recorded when the activity occurs, not when the cash is paid. This means, for instance, that the cash outlays for student loans are recorded differently in government debt and government borrowing.

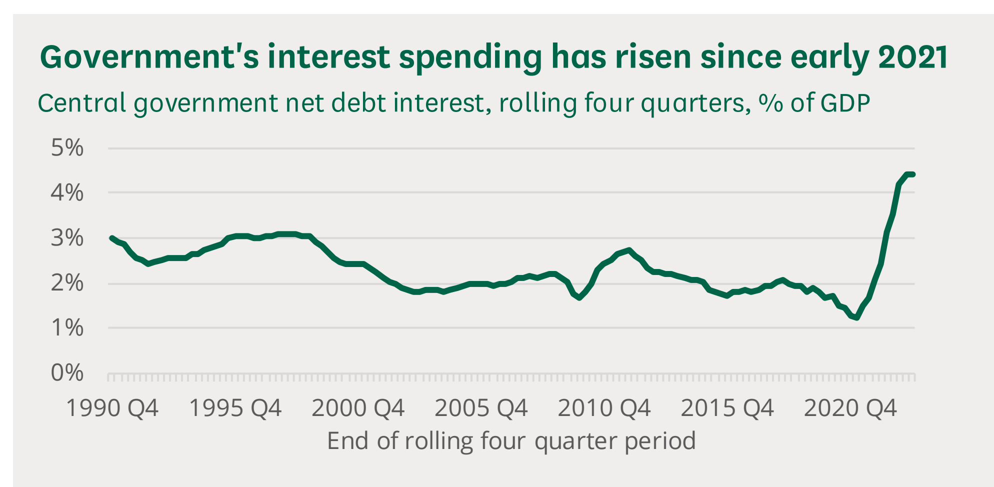
The Library briefing The UK's fiscal targets discusses the targets and government's wider policy for managing the public finances.

3.3 Government debt interest

Spending on debt interest is high

The government pays interest on its debt. From the late 1980s until 2022, the effective interest rate the government was paying on debt had been falling.[152] During the Covid-19 pandemic, relative to government revenues, debt interest costs fell to lows last seen in the 1690s.[153]

The situation has since changed (as shown in the chart below). Government debt interest spending was £112 billion in 2022/23, up from £57 billion in 2021/22 and £25 billion in 2020/21.[154] Debt interest spending in 2022/23 was equivalent to 4.4% of GDP, higher than in any year since the late 1940s.[155]



[151] For more on such items see Box 5.1 (PDF) of the OBR's March 2023 Economic and fiscal outlook

[152] OBR, Economic and fiscal outlook – November 2022, Chart 19

[153] IFS, Green Budget 2020: Chapter 4, 13 October 2020, Figure 4.14

[154] ONS Series NMFX and MU74

[155] OBR. Public finances databank – August 2023 (accessed on 26 September 2023)

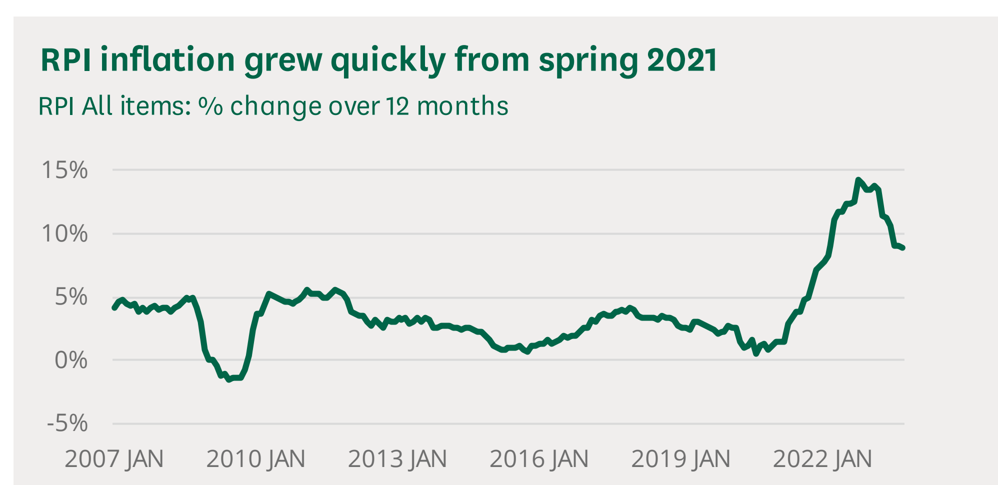
Notes: Debt interest, net of APF. See box 2 for an explanation of the APF.

Sources: ONS Series NMFX, MU74, BKTL

High inflation and interest rates have increased spending on debt interest

As the Library briefing Background to Spring Budget 2023 explains in more detail, the government's debt interest spending has increased due to high inflation and increases in interest rates.

High inflation is behind much of the recent increase. Higher inflation immediately increases government spending on debt interest because around a quarter of the debt is index-linked. This means the interest paid on this debt is directly linked to the Retail Prices Index (RPI) measure of inflation. As shown in the chart below, RPI peaked at 14.2% in October 2022, it was 1.3% in October 2020.[156]



Source: ONS Series CZBH

The government's debt interest spending is also determined by the Bank of England's main interest rate (often referred to as the benchmark bank rate or Bank Rate) and the rate at which investors are prepared to lend to the government.

Bank Rate determines the effective rate of interest paid on some of the government's existing stock of debt, which is held by the Bank of England in the Asset Purchase Facility (APF; see box 2 below).[157] The rate at which investors are prepared to lend to the government (as indicated by gilt yields) determines the interest rate paid on the government's new borrowing.

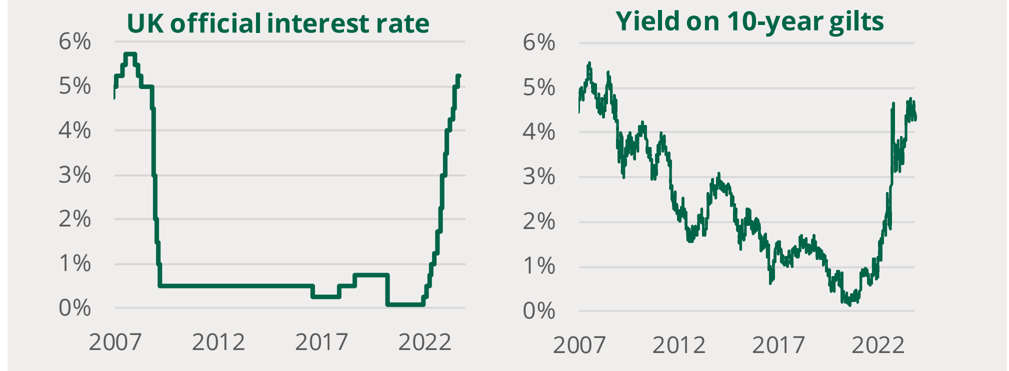
Both rates of interest have increased since autumn 2021, as shown in the chart below.[158]

156 ONS Series CZBH

157 For more on this see Box 10 of the Library briefing Coronavirus: Economic impact.

158 OBR, Conditioning assumptions [accessed on 26 September 2023]

The official interest rate and the rate at which markets will lend to the Government have increased since autumn 2021



Notes: Yield from British Government Securities, 10 Year Nominal Par Yield

Sources: Bank of England, Official Bank Rate History; Series IUDMNPY

2 Bank Rate, the Asset Purchase Facility and debt interest spending

The Bank of England holds some government debt, but the Bank is part of the public sector. This affects how the government pays interest on this debt.

Why does the Bank of England hold government debt?

Following the 2007 to 2009 financial crisis, the Bank of England began a programme of quantitative easing. The aim of quantitative easing is to lower the interest rates on financial assets, which should result in lower interest rates on loans for households and businesses. Spending in the economy should be boosted as a result.[159]

Broadly speaking, to do this the Bank bought financial assets from investors (such as pension funds and insurance companies). The Bank mainly bought government gilts (bonds), so the government has to pay interest to the Bank on these gilts.

Quantitative easing was expanded following the EU referendum result and, more significantly, during the Covid-19 pandemic.

What's the Asset Purchase Facility?

The Bank carries out quantitative easing though its Asset Purchase Facility (APF).[160]

The APF purchases gilts from investors, financed by a loan from the Bank; the Bank of England effectively creates new money for this loan by crediting it to the accounts that commercial banks hold with the Bank of England. The APF pays interest on its loan from the Bank of England at the Bank Rate, which is the headline rate of interest set by the Bank's Monetary Policy Committee. The Bank of England then pays interest to commercial banks at Bank Rate on their credited reserves.

How does this affect government debt interest spending?

The Bank of England is part of the wider public sector finances. When the government makes debt interest payments to the APF (for its gilts held in the APF) the payments are income for the APF and at the public sector level the two payments are precisely offset. The interest payment is essentially a transfer within the public sector and the net effect is £0.

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[159] Bank of England, What is quantitative easing?

[160] Other schemes are also now delivered through the APF. For instance, the Bank's recent purchases of long-dated gilts were carried out through the APF: see HCWS319 Update on recent Bank of England asset purchases .

In terms of public sector debt interest, all that remains is the interest that the APF pays on its loan from the Bank.

This means that the gilts held in the APF have effectively been refinanced. When gilts are issued, the government agrees to pay a fixed rate of interest over the life of the gilt. When the APF buys the gilt, the effective rate of interest is no longer the fixed interest payments the government would face if the gilts were held in the public sector. The interest rate is now the floating Bank Rate paid on the APF's loan, which is set by the Bank.

How has the government's debt interest spending been affected?

For government debt interest spending, what matters is whether Bank Rate is lower than the average interest rate of the gilts held in the APF. If Bank Rate is lower than the gilts' average interest rate, the APF will make a profit from the interest payments, which lowers government debt interest spending. If Bank Rate is higher, and the APF makes an interest rate loss, government debt interest spending is higher than it would be if the gilts were held in the private sector.

For much of the APF's existence, Bank Rate has been lower than the average interest rate on the gilts. This lowered the government's net debt interest spending by around £150 billion, up until March 2022. Now that Bank Rate is higher, the OBR expects the APF to add around £46 billion across 2022/23 to 2027/28 to the government's net interest spending.[161]

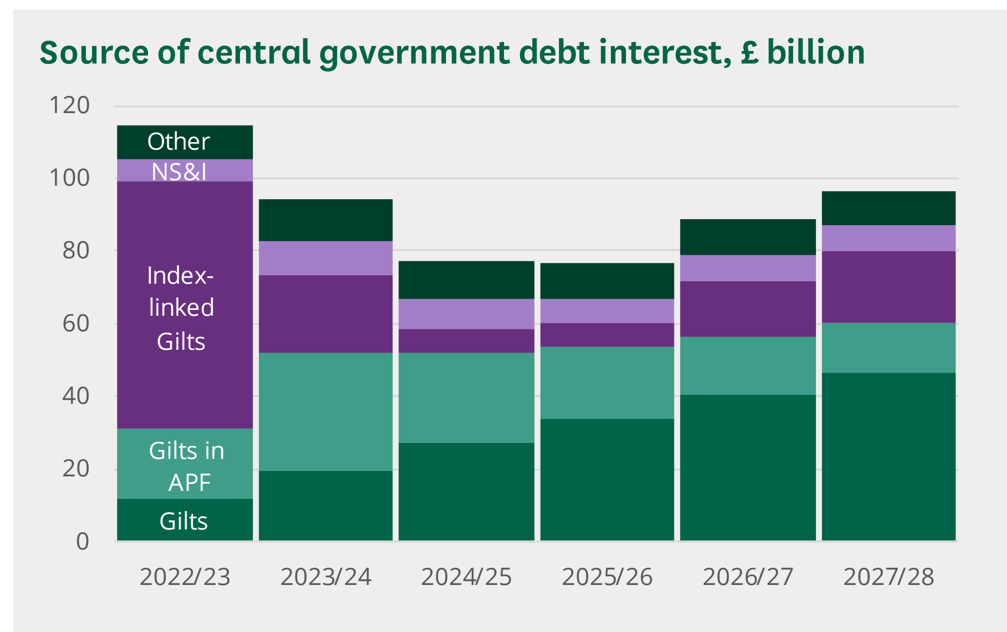
Spending on debt interest is forecast to fall but remain higher than in the recent past

The OBR forecast the government would spend £94 million on debt interest in 2023/24, equivalent to 3.7% of GDP, which is higher than the average of 2.9% of GDP since the Second World War. Spending was forecast to fall in subsequent years but remain higher than this average.

Forecasts of debt interest spending were significantly higher in March 2023 than in autumn 2021. As the chart below shows, high inflation has played a significant role in the recent jump in debt interest spending, through index-linked gilts, but increases to interest rates are more important in the higher forecasts for the years after 2023/24.[162]

[161] OBR, Economic and fiscal outlook – March 2023, Supplementary Table 3.6

[162] OBR, Economic and fiscal outlook - November 2022, Table 3; OBR, Economic and fiscal outlook – March 2022, Table 3.27; OBR, Economic and fiscal outlook – March 2023, Table 4.12



Notes: 'Gilts' are conventional gilts not held in the APF. NS&I is National Savings and Investments.
Source: OBR. Economic and fiscal outlook – March 2023, Supplementary table 3.19

In its upcoming forecast, it's likely that the OBR will forecast higher debt interest spending in 2023/24. Bank Rate, the RPI measure of inflation and the rate at which investors will lend to the government have all been higher in 2023/24 than the OBR expected.[163]

The OBR uses market expectations to determine its forecasts for interest rates. The IFS says that current expectations for Bank Rate could increase debt interest spending by £20 billion in 2026/27.[164] The Resolution Foundation estimates that debt interest spending could be around £16 billion higher in 2027/28 than was forecast in March 2023.[165]

3.4 The Treasury's priorities and potential measures

The Treasury says the Autumn Statement will include measures to "unlock" investment, help people get back to work, reform the planning system, support manufacturers and reform public services.[166]

[163] OBR, Economic and fiscal outlook – March 2023, Supplementary tables; ONS, Consumer price inflation tables, September 2023; Bank of England, Series IUQALNPY

[164] IFS, Green Budget 2023, Chapter 3, 16 October 2023

[165] Resolution Foundation. Preparing the pitch. Autumn Statement 2023 preview, 6 November 2023, page 16

[166] HM Treasury (@hmtreasury), X (Twitter), 10 November [Accessed 10 November 2023]; HM Treasury (@hmtreasury), X (Twitter), 10 November [Accessed 10 November 2023]; "UK productivity almost flat since the financial crisis", Financial Times, 9 November 2023

The Chancellor says in the Autumn Statement he will "address labour supply issues to help fill the nearly 1 million vacancies we have" working with the Secretary of State for Work and Pensions. He will also "focus on increasing business investment".[167]

Here we discuss what is known about these potential measures.

Potential pension fund reforms

In July 2023, the Chancellor announced a series of reforms to pension funds, designed to "unlock" investment, in his Mansion House speech.[168] Nine of the largest pension providers committed to allocating funds to unlisted equities, which are shares not traded on a stock exchange

Other proposed reforms include doubling the allocation of local government pension schemes in private equity to 10%. The Resolution Foundation says we may hear some more about these reforms in the Autumn Statement.[169] The Treasury says it will bring forward measures by the autumn.[170]

Supporting people back to work

The Government is concerned about the number of people who are economically inactive because of long-term sickness.[171] As discussed above (section 3.1), the Chancellor may announce changes to the Work Capability Assessment, which the Government say will help people back into work, in the Autumn Statement.

The Library briefing Spring Budget 2023: A summary summarises policies announced in spring "to remove the barriers that stop people who want to from working".[172] There is further information in the Treasury's Spring Budget 2023 factsheet – Labour Market Measures.

Back to Work Plan

As this Library briefing was going to press, the Secretary of State for Work and Pensions, Mel Stride, issued a written statement announcing a 'Back to Work Plan' comprising a "package of employment-focused support that will help people to stay healthy, to move off benefits and to move into work".[173]

Key elements of the package include expanding available treatment and employment support services and exploring reforms of the fit note system. The Government also proposes strengthening work search requirements for job seekers at all stages of their Universal Credit claim, and toughening the

167 HC Deb 14 November 2023 c543
168 HM Treasury. Chancellor Jeremy Hunt's Mansion House speech, 10 July 2023
169 Resolution Foundation, Preparing the pitch Autumn Statement 2023 preview, 6 November 2023
170 HM Treasury, Spring Budget 2023, 15 March 2023, para 3.82
171 HC Deb 5 September 2023 c213
172 HM Treasury. Spring Budget 2023 speech, 15 March 2023
173 HCWS43 [Labour Market Update], 16 November 2023

application of sanctions for those who fail to comply with them. New "digital tools" would enable DWP work coaches to track claimants' attendance at job fairs and interviews. Claimants who continue to refuse to engage with their Jobcentre or take work offered to them would face having their UC claim closed, with the consequent loss of passported benefits such as free prescriptions.[174]

The Government says the plan would help up to 1.1 million people with long-term health conditions, disabilities or long-term unemployment to look for and stay in work.[175]

Reviewing public sector productivity

The Chief Secretary to the Treasury is leading a public sector productivity programme, and update on this programme will be given at the Autumn Statement.[176] The review is assessing how to increase public sector productivity growth in the short and long term.[177] The Chancellor says that increasing productivity growth in the public sector by 0.5% a year would "stop the state growing ever bigger as a proportion of our output" and it would "put us on a sustainable path to lower taxes."[178]

The UK's National Statistician, the Chief Executive of the UK Statistics Authority, is also reviewing how productivity is measured in the public sector. An initial report is expected at the Autumn Statement providing baseline estimates on performance.[179]

What about taxes?

The Chancellor says that cutting business taxes to support economic growth is his current tax priority:[180]

> I've always been clear that low taxes are part of a dynamic, successful, entrepreneurial economy, but what I've said is my priority is growth, so cutting business taxes is the most important thing at this stage.

As discussed in section 3.1, the Chancellor temporarily introduced full expensing for corporation tax in the 2023 Spring Budget. Full expensing allows companies to claim the full cost of their expenditure on IT equipment, plant or

174 HM Treasury, DWP and DHSC press release, Employment support launched for over a million people, 16 November 2023
175 As above
176 HC Deb 14 November 2023 c495
177 HM Treasury. Chancellor Jeremy Hunt's speech at the Centre for Policy Studies, 12 June 2023; "Jeremy Hunt announces drive to boost UK public sector productivity", FT, 12 June 2023
178 HM Treasury. Chancellor Jeremy Hunt's speech at the Centre for Policy Studies, 12 June 2023
179 ONS. Public Services Productivity Review, 1 November 2023
180 "UK economy flatlines as higher interest rates bite", BBC, 11 November 2023

machinery against tax when this business investment is made, reducing the amount of tax they must pay.[181]

The Chancellor says he wants to make the temporary measure permanent "as soon as we can responsibly do so".[182] Business leaders are calling for him to do so in the Autumn Statement.[183] The upfront cost would be around £10 billion a year.[184]

Recent history suggests that an inflationary increase in fuel duty, due in March 2024, will be cancelled as has happened in each year since 2011 (see section 3.1). However, the Chancellor could wait until Spring Budget 2024 to cancel the increase.

Business rates have also been frozen in recent years and specific industries have received additional reliefs. A 75% relief for the retail, hospitality and leisure sectors is due to end after March 2024. The Chancellor says he keeps "under review anything that we can do to help our small businesses."[185]

As is traditional in the run up to a Chancellors' statement, there are rumours about other potential tax changes. Cuts to inheritance tax and stamp duty are being reported in several places.[186] There is currently a temporary reduction in stamp duty land tax which will end in March 2025, and the threshold at which buyers of property begin paying the tax was temporarily increased in Autumn Statement 2022.[187] Making the temporary measure permanent would cost around £1.6 billion a year.[188]

In the long term, the Chancellor wants to bring down the tax burden but will not "do anything that compromises the battle against inflation".[189] The IFS says that while the Chancellor might decide to cut taxes in the run up to the next election taxes will still have increased overall during this Parliament. The IFS adds that "it is currently on track to be the biggest tax-increasing parliament since comparable records began."[190]

181 See the Library briefing Corporate tax reform or the IFS's Full expensing and the corporation tax base for further information.

182 HC Deb 15 March 2023 c833-847

183 "Better UK productivity requires longer-term tax breaks, say business leaders", FT, 6 November 2023

184 OBR. Economic and fiscal outlook – March 2023, para 3.13

185 HC Deb 15 November 2023 c500-501

186 "Hopes for autumn statement tax cuts as Jeremy Hunt finds wiggle room", The Times, 12 November 2023; "Hope for stamp duty and inheritance tax cuts in Autumn Statement as Hunt is told he has more fiscal 'headroom'", Mail Online, 13 November 2023; "Around £15billion of headroom could be used to halve inheritance tax to 20 per cent at Autumn Statement", The Sun, 12 November 2023

187 The September 2022 Growth Plan announced a rise in the residential property nil-rate threshold to £250,000, with the threshold relief for first-time buyers rising to £425,000. This was later made temporary in the Autumn Statement 2022.

188 Resolution Foundation. Preparing the pitch: Autumn Statement 2023 preview, 6 November 2023, page 25 (PDF)

189 "Jeremy Hunt says families should be optimistic despite stagnating economy" Sky News, 10 November 2023

190 IFS. This will be the biggest tax-raising parliament on record, 29 September 2023

4 Parliament's fiscal year

Parliament has a role in both raising tax and approving Government spending. Parliament's fiscal calendar can vary. The below gives a broad outline:

- **May**: Government departments' spending plans (known as the Main Estimates) are published.
- **July**: Government departments' spending plans are debated in the House – using procedures introduced in 2018.[191]
- **July:** A Supply and Appropriation (Main Estimates) Bill is introduced and, if agreed, receives Royal Assent, formalising the Main Estimates as the departments' initial budgets for the year.
- **July:** Government departments lay their annual reports and accounts (for the financial year ending the previous March) before Parliament.
- **November:** The Chancellor publishes the Autumn Statement. The Office for Budget Responsibility's (OBR) economic and fiscal forecast is published.
- **February:** Government departments publish revised spending plans (Supplementary Estimates). These are debated in the House – using procedures introduced in 2018.[192]
- **February:** The Government requests advance funding for the first four months of the next financial year (known as the Vote on Account) for each department.
- **March:** A Supply and Appropriation (Anticipations and Adjustments) Bill is introduced and, if agreed, receives Royal Assent. This is a formal agreement to revise in-year budgets which are set out in Supplementary Estimates and to advance money for the new year in the Vote on Account.
- **March:** The Budget is published along with another economic and fiscal forecast from the OBR. Following this, a Finance Bill is introduced. Royal Assent of the Bill should be reached before the start of the following financial year.

[191] Public spending: New debates in the House, House of Commons Library, 24 January 2018

[192] Public spending: New debates in the House, House of Commons Library, 24 January 2018

The process can vary from year to year. It has been Treasury policy, since 2017, that there should be one ‘fiscal event’ – a Budget in the autumn – in which new tax and spending policies are announced.[193] This should then be followed by a spring statement, in which the Chancellor responds to the OBR’s newly published forecasts.

The Chancellor will not make significant tax or spending announcements at the Spring Statement unless the economic circumstances require it. This timetable has rarely been followed since it was introduced in 2017.

Further information is available in the following Library briefings:

- The Budget and the annual Finance Bill, September 2023
- Main Estimates: Government spending plans for 2023/24, June 2023
- Revised Government spending plans for 2022/23, March 2023
- Spring Budget 2023: A summary, March 2023
- Spring Budget 2023: Reaction, March 2023

Parliament’s Scrutiny Unit also publishes useful information on the estimates process and scrutiny of public spending.

[193] HM Treasury, The new Budget timetable and the tax policy making process, 6 December 2017

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