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Research Briefing

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Autumn Statement 2023: A summary

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Contents

1 Introduction

The Chancellor of the Exchequer, Jeremy Hunt, presented his 2023 Autumn Statement to Parliament on 22 November and published supporting documents. Once the Chancellor had finished his statement, the Office for Budget Responsibility (OBR) published updated forecasts for the UK's economic and fiscal outlook.

As the Library briefing Autumn Statement 2023: Background briefing explains, UK economic growth has been weak since early 2022. High inflation and rising interest rates have constricted household budgets and consumer and business spending.

The OBR forecasts that the economy will grow more slowly than it had forecast in March 2023. Inflation is now forecast to be more persistent and domestically driven. Higher domestically driven inflation improves the outlook for the public finances, boosting tax revenues by more than it raises public spending.

The Chancellor used much of the improvement in the public finances to fund cuts to business taxes and personal taxes.

1.1 The Autumn Statement speech

In his speech, the Chancellor said he was delivering an "Autumn Statement for growth".[1] He said the OBR's forecast shows that the Prime Minister's priorities for the economy are being met. The economic priorities are to halve inflation, grow the economy and reduce debt.[2]

The Chancellor's speech set out "growth measures to back British business" and "measures to make work pay".

Section 2 of this briefing describes the policies introduced to support his goals. Section 3 looks at trends in public spending.

Sections 4 and 5 summarise the OBR forecasts for the economy and public finances.

Section 6 explains what happens after the Autumn Statement.

1 HM Treasury. Autumn Statement 2023 speech, 22 November 2023

2 10 Downing Street News Release. Prime Minister outlines his five key priorities for 2023, 4 January 2023

2 Policy announcements

This is a summary of key policy announcements. A fuller list of the policy announcements is included in the 2023 Autumn Statement document.

2.1 Tax

The Autumn Statement cut personal taxes and business taxes. The Chancellor cut rates of National Insurance and, for businesses, made the 'full expensing' (100%) capital allowance scheme permanent.

National Insurance Contributions (NICs)

The rate of Class 1 NICs paid by employees will be cut from 12% to 10% from 6 January 2024. The OBR estimates that 27.3 million employees will benefit in 2024/25.[3] The Chancellor said that legislation to make the change will be introduced on the day after the Autumn Statement (23 November).

The main rate of Class 4 NICs, paid by the self-employed, will be cut from 9% to 8% from 6 April 2024. The OBR estimates that 2.1 million people will gain from this change in 2024/25.[4]

The Chancellor also removed the requirement for self-employed people with profits of at least £12,750 to pay Class 2 NICs, with effect from 6 April 2024. The OBR estimates that 1.9 million people will gain from this change in 2024/25.[5]

These changes to NICs are forecast to cost the Government between £9 billion and £10 billion a year over the next five years.[6]

Business taxes

Capital allowances

In the 2023 Spring Budget, the Government announced a temporary three-year 100% capital allowance (referred to as 'full expensing'). Full expensing allows some investment in new plant and machinery to be entirely written off

3 Office for Budget Responsibility, Economic and fiscal outlook, CP944, 22 November 2023, para 3.6
4 Office for Budget Responsibility, Economic and fiscal outlook, CP944, 22 November 2023, para 3.6
5 Office for Budget Responsibility, Economic and fiscal outlook, CP944, 22 November 2023, para 3.6
6 Office for Budget Responsibility, Economic and fiscal outlook, CP944, 22 November 2023, Table 3.2, p57

against taxable profits. This had been due to end in March 2026. The Autumn Statement made full expensing permanent.

The Government said this would make “the UK’s capital allowances regime one of the most generous in the world”. It hopes this measure will increase investment in the economy and improve productivity.[7]

The OBR forecasts that this will reduce tax receipts by £10.9 billion in 2028/29.[8]

Business rates

The Government is extending the current 75% business rates relief for eligible retail, hospitality and leisure properties for one year covering 2024/25.

The small business multiplier for business rates will remain at its 2023/24 rate in 2024/25.

The Government has agreed the arrangements for long-term 100% business rates retention by the Greater Manchester and West Midlands Combined Authorities. These arrangements will start in April 2024.

Freeports and investment zones

The Government is extending the duration of the tax reliefs available in freeports from five years to ten years. The investment zones programme will also be extended from five years to ten years.

New investment zones were announced for the West Midlands, East Midlands and Greater Manchester, as well as Wrexham and Flintshire.

There will be a new £150 million Investment Opportunity Fund to support investment zones and freeports to secure business investment.

Research and development

The system of corporation tax reliefs for research and development will be simplified and changed, from April 2024:

- The research and development Expenditure Credit (RDEC) and the research and development tax relief for small and medium-sized businesses (SMEs) scheme will be combined into a merged scheme.
- Amendments are being made to the scheme for businesses that have particularly high spending on research and development.[9]

The changes will cost £280 million a year by 2027/28, according to the Treasury. The government has published a Technical note on changes to

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7 HM Treasury, Autumn Statement 2023, CP977, 22 November 2023, p4

8 Office for Budget Responsibility, Economic and fiscal outlook, CP944, 22 November 2023, Table 3.3, p58

9 HM Treasury, Autumn Statement 2023: Policy Costings, p25

research and development tax reliefs at Autumn Statement 2023 with further details.

Climate

The Government is introducing a Climate Change Agreement scheme. This will entitle participants that meet energy efficiency or decarbonisation targets to reduced rates of Climate Change Levy from 1 July 2027 to 31 March 2033.

Alcohol and tobacco duties

The Autumn Statement left alcohol duties unchanged until 1 August 2024 and delayed the annual uprating decision to the 2024 Spring Budget. This is to allow businesses to adapt to the duty system introduced in August 2023. [10]

Duty rates on all tobacco products will increase by 2 percentage points more than the retail prices index (RPI +2%). The rate on hand-rolling tobacco will increase by RPI +12% this year. The changes came into effect at 6pm on 22 November.

Other measures

Individual Savings Accounts

The Autumn Statement leaves the Individual Savings Account (ISA), Junior Individual Savings Account, Lifetime Individual Savings Account and Child Trust Fund limits unchanged in 2024/25.

OECD Pillar 2

Pillar 2 is part of joint initiative of the Organisation for Economic Co-operation and Development (OECD) and the G20 to limit the opportunities for multinational enterprises to benefit from cross-border profit shifting and tax planning. Two elements of Pillar 2 were included in the 2022 Autumn Statement. The third element, an undertaxed profits rule, was included in the 2023 Autumn Statement.

HMRC debt management capacity

There will be additional funding to improve HMRC's capacity to collect outstanding tax debts. This will include recruiting extra staff and acquiring new data to allow HMRC to provide a more tailored approach to debt collection for companies.

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10 HM Treasury, Autumn Statement 2023, CP977, 22 November 2023, p95

2.2 Government spending

Getting people into work

Work Capability Assessments

Changes will be made to activities and descriptors used in Work Capability Assessments for Universal Credit and Employment and Support Allowance claimants.

This will save the government an estimated £1.3 billion by 2028/29; these savings are because some claimants will no longer qualify for additional amounts. Changes to the assessment will also mean some claimants are required to meet greater work-related conditions. The OBR expects that the changes will raise the number of people in employment by around 10,000 by 2028/29.[11]

These changes followed a consultation which the Government responded to alongside the Autumn Statement. Further details are set out in a written statement from the Work and Pensions Secretary Mel Stride.

Back to Work Plan

A Back to Work plan was announced the week before the Autumn Statement in a statement by Mel Stride. It set out that:

- The Restart scheme will be expanded in 2024 to provide employment support for the long-term unemployed in England and Wales at an earlier point. People will now be eligible if they have been subject to Intensive Work Search requirements for six months, rather than nine months. The scheme will run until June 2026. It will cost £580 million in its peak year 2025/26.

- Mandatory work placement and other options will be trialled and rolled out for people who are unemployed after 12 months on the Restart scheme, at a cost of up to £45 million a year.

- The Universal Support scheme in England and Wales will be doubled in size, to include 100,000 people. This involves matching disabled people to job vacancies and providing funding to support them. The cost will be £160 million in its peak year of 2026/27.

- The Talking Therapies scheme, for treatment of mild and moderate mental health conditions (provided by NHS England), will be expanded. More people will be able to access treatment and there will be more

11 Office for Budget Responsibility, Economic and fiscal outlook, CP944, 22 November 2023, Table 3.3, p62

sessions per course of treatment. The cost will rise to £220 million in 2028/29.

- The Individual Placement and Support scheme will be expanded. This provides intensive, individually tailored employment support to those with severe mental illness in England. The cost of the expansion is £30 million in the peak year of 2026/27. The OBR says the total cost of the scheme will be almost fully offset by reduced welfare spending.

- Potential reforms to fit notes, with trial reforms to provide individuals whose health affects their ability to work with easy and rapid access to specialised work and health support.

As part of the plan, the Government also announced a strengthening of work-search requirements for job seekers at all stages of their Universal Credit claim, and toughening the application of sanctions for those who fail to comply with them. New tools will enable Department of Work and Pensions (DWP) work coaches to track claimants' attendance at job fairs and interviews.

Claimants who continually refuse to engage with their Jobcentre or take work offered to them will face having their Universal Credit claim closed, with the loss of linked (passported) benefits such as free prescriptions.

Benefit uprating

Working age benefits and pensions

Working-age benefits will increase by 6.7% in April 2024. This is based on consumer prices index (CPI) inflation in the year to September 2023, in line with standard practice.

State Pensions and the Pension Credit standard minimum guarantee will increase by 8.5% in April 2024. This is based on average earnings growth, which was higher than the other elements of the State Pension triple lock (CPI inflation and 2.5%).

For further background see the Library's briefings on How benefit levels are set and the State Pension triple lock.

Local Housing Allowance

Local Housing Allowance (LHA) rates will be increased to equal the 30th percentile of an area's market rents in 2024/25 – in other words the level at which 30% of rents are lower, and the rest higher. Rates will then be frozen in cash terms in subsequent years. The cost of this change will rise to £1.7 billion in 2028/29.

LHA rates were last set at the 30th percentile of local rents in April 2020 but were then frozen, leading to shortfalls between market rents and support in most areas.

For further background see the Library's briefing on Local Housing Allowance.

Other benefit changes

Changes for self-employed people who care for children

The Minimum Income Floor will increase for self-employed lead carers of children aged 3 to 12 years in Great Britain. This affects some self-employed claimants of Universal Credit. In calculating how much they receive, they are treated as if they earn the National Minimum Wage for the number of hours per week they are expected to work, even if they earn less than this.

The change is linked to a new requirement – announced at the 2023 Spring Budget and implemented from 25 October 2023 – for these carers to undertake work search and work preparation activity for more hours per week. The increase in the Minimum Income Floor will save the government £80 million a year from 2026/27.

Surplus earnings threshold

The surplus earnings threshold for Universal Credit claimants in Great Britain will stay at £2,500 for a further year until April 2025. If someone earns more than the amount at which Universal Credit is paid plus this threshold level, their future Universal Credit payments will be reduced. The intention has been for this threshold level to be temporary and to eventually reduce it to £300, but the temporary period at this level has been extended repeatedly. The extension of this will cost £155 million in 2024/25.

Housing and planning

Local Authority Housing Fund

There will be a third round of the Local Authority Housing Fund at a cost of £450 million. There will be 2,400 new housing units including to house Afghan refugees and provide temporary accommodation.

Affordable Homes Guarantee Scheme

The Affordable Homes Guarantee Scheme will be expanding by a further £3 billion. This allows housing associations to access cheaper loans.

Planning

Announcements include:

- plans for accelerated planning decision dates for major developments in England to be guaranteed in exchange for a fee
- a consultation on a new permitted development right to enable one house to be converted into two flats.

Funding for industries

The Government has made various announcements on funding for industries, including:

- funding of £4.5 billion available for strategic manufacturing sectors – auto, aerospace, life sciences and clean energy – from 2025/26 for five years.[12]
- expansion of the Made Smarter Adoption programme, which supports manufacturing SMEs to use advanced digital technologies.

2.3 Other announcements

National Living Wage

The day before the Autumn Statement, the Government announced the National Living Wage (NLW) and National Minimum Wage (NMW) rates that will come into force from April 2024.[13]It accepted the recommendations of the Low Pay Commission.

The National Living Wage rate will be £11.44 from April 2024. This will apply to those aged 21 or over, after an extension of the rate to those aged 21 and 22.

The Government had previously set a target for the rate to reach two-thirds of median earnings in 2024. The Low Pay Commission judges that these rates will mean this target is met.[14]

Pensions and pensions funds

The Government has announced a package of reforms relating to pensions focusing on three themes:

- Providing better outcomes for savers, for example by encouraging the consolidation of pension pots
- Driving a more consolidated pensions market
- Enabling pension funds to invest in a diverse portfolio, for example through a new fund within the British Business Bank (BBB).[15]

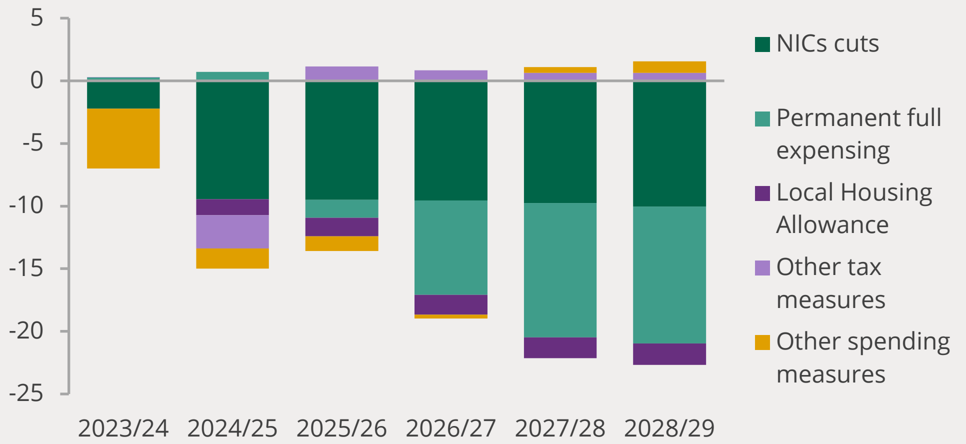
12 See also HM Treasury, Billions of investment for British manufacturing to boost economic growth, 17 November 2023
13 HCWS59, 21 November 2023
14 Low Pay Commission, Largest ever cash increase to the minimum wage, 21 November 2023
15 HM Treasury, Autumn Statement Pensions Reform 2023, 22 November 2023

2.4 Summary of the cost of announcements

As the chart below shows, the Chancellor's announcements will cost the Treasury an average of about £15.6 billion per year between 2023/24 and 2028/29.

Net effect of Autumn Statement 2023 policy decisions

£ billions, not adjusted for inflation, net benefit to Treasury



Note: Excludes effect of policy decisions taken before the 2023 Autumn Statement.

Source: HM Treasury, Autumn Statement 2023 Policy Decisions, 22 November 2023

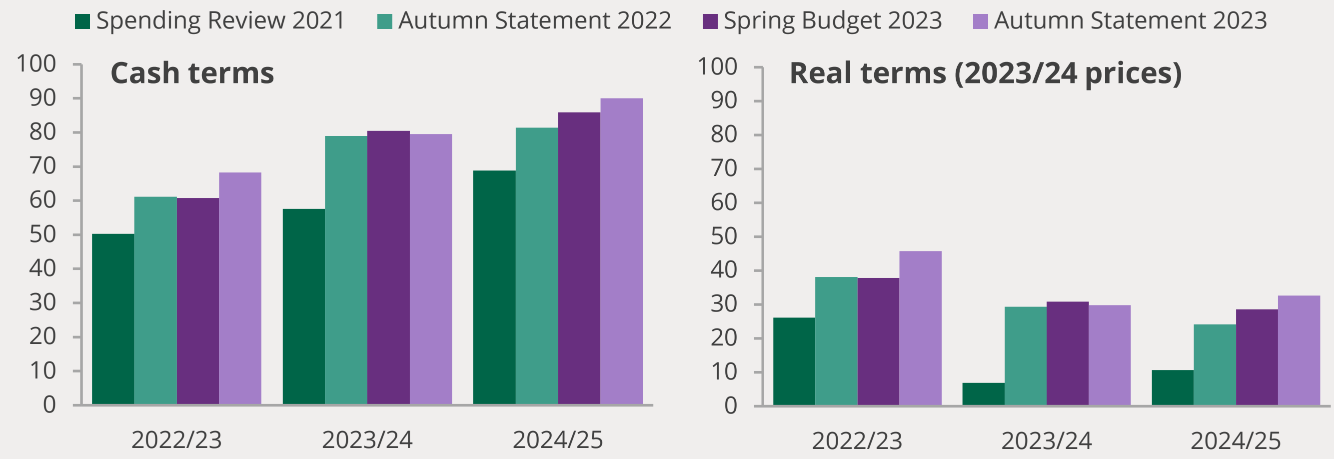
3 Public spending trends

3.1 Plans in the current Spending Review period

Departmental spending plans for 2022/23 to 2024/25 were first set in the 2021 Spending Review. As the chart below shows, although resource (day-to-day) spending plans have been repeatedly increased since, they have changed very little between the 2023 Spring Budget and the Autumn Statement.

Resource spending plans have been repeatedly topped up

Resource DEL excluding depreciation, £ billions, change from 2021/22



Note: DEL = Departmental Expenditure Limits (pre-planned spending)

Source: HM Treasury, Autumn Budget and Spending Review 2021, 27 October 2021; Autumn Statement 2022, 17 November 2022; Spring Budget 2023, 15 March 2023; Autumn Statement 2023, 22 November 2023

At the time of the Spring Budget in March 2023, resource spending was forecast to increase across the entire Spending Review period by an average of 3.8% per year in real terms. Since then, updated inflation forecasts have meant that these plans have lost some value in real terms.

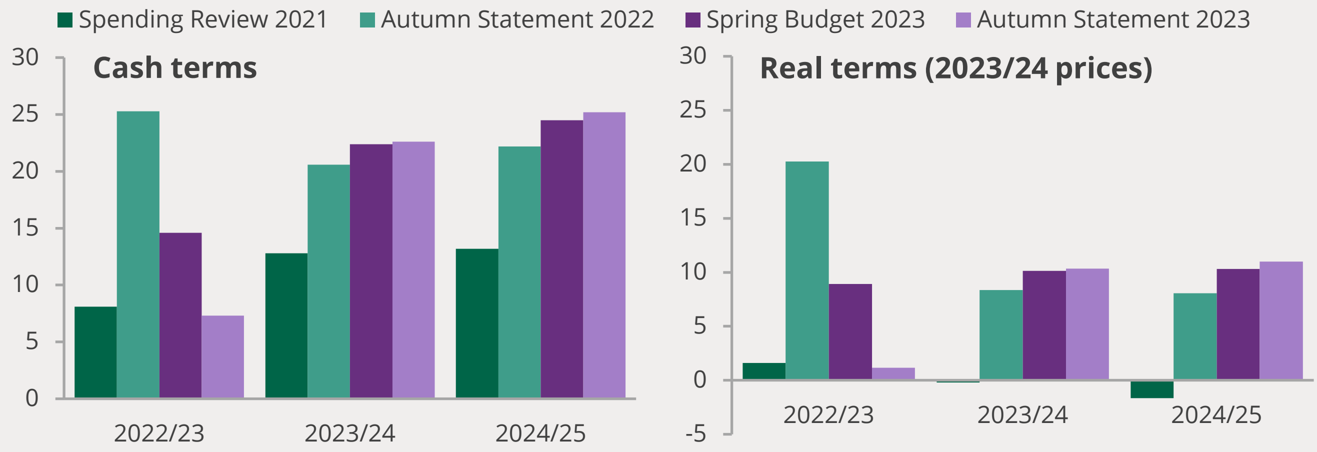
If the plans in place in March had remained as they were, the increase would now be worth about 2.3% per year on average. However, following this

Autumn Statement, spending will now increase by an average of 2.7% per year. Some of this is due to technical changes.[16]

The change in capital spending (investment spending) has been more complicated. As the chart below shows, although spending plans in 2023/24 and 2024/25 have been repeatedly increased, including in the 2023 Autumn Statement, capital spending in 2022/23 ended up being lower than planned.

Capital spending has decreased in 2022/23 (but increases in later years)

Capital DEL, £ billions, change from 2021/22



Source: HM Treasury Spending Review 2021, 27 October 2021; Autumn Statement 2022, 17 November 2022; Spring Budget 2023, 15 March 2023; Autumn Statement 2023, 22 November 2023

In real terms, the plans for capital spending in the remaining years of the current Spending Review period have not significantly changed following this Autumn Statement.

3.2 Spending plans for 2025/26 onwards

In his speech, the Chancellor confirmed that the intended path for public spending in the years following the current Spending Review period had not changed.[17] These plans, initially set at the 2022 Autumn Statement, involve resource spending increasing by 1% per year in real terms and capital spending remaining frozen in cash terms from 2025/26 onwards.[18]

This would represent an average increase in resource spending of about £4.1 billion per year (in 2023/24 prices) between 2024/25 and 2027/28, and an

16 For instance, the government has committed to providing funding for the increased cost of employer contributions from April 2024 for centrally funded employers.
17 HM Treasury, Autumn Statement 2023 speech, 22 November 2023
18 HM Treasury, Autumn Statement 2022, 7 November 2022

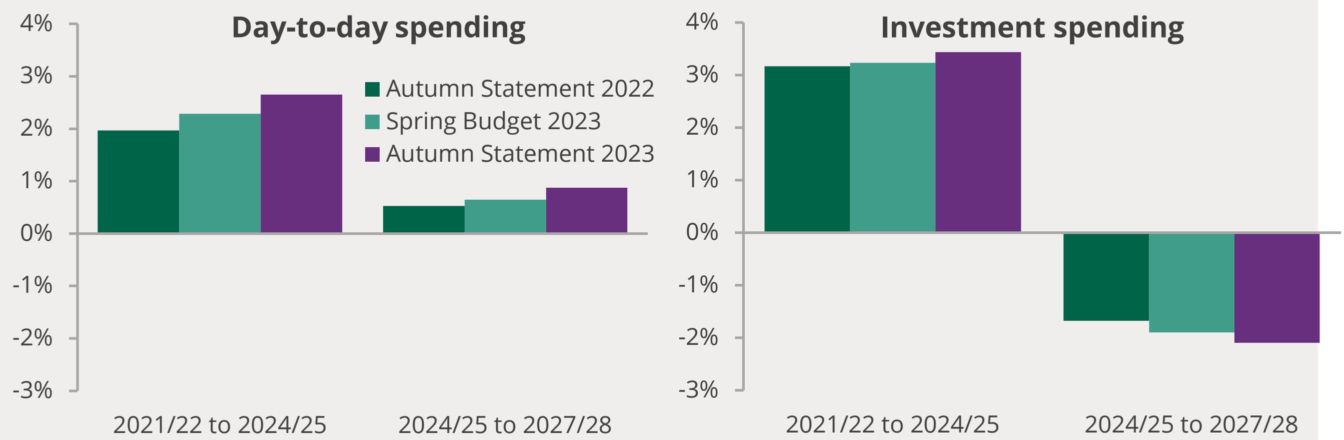
average decrease in capital spending of £2.4 billion per year over the same period.

This is a large cut in spending relative to the plans made in the 2021 Spending Review, when resource spending was expected to grow by 2.1% per year in real terms in both 2025/26 and 2026/27.

As the chart below shows, it would also be lower than the average annual increase of 2.7% that the plans in the 2023 Autumn Statement imply for the current Spending Review period (2021/22 to 2024/25).

Spending plans are set to be much less generous post-2024/25

Annual average real-terms change in spending, %



Note: Day-to-day spending is resource DEL excluding depreciation; investment spending is capital DEL.

Source: HM Treasury, Autumn Statement 2022, 17 November 2022; Spring Budget 2023, 15 March 2023; Autumn Statement 2023, 22 November 2023

Using the most recent inflation forecasts, capital spending is now expected to fall by an average of 2.1% per year in real terms between 2025/26 and 2027/28. This would be far lower than the 3.4% annual average increase implied by the plans for the current Spending Review period.

The OBR says the spending plans from 2025/26 onwards imply a cut of 2.3% per year in real terms for "unprotected" spending (that is, areas other than the NHS, defence, overseas aid, schools, childcare, and the devolved administrations).[19]

The OBR also says that the totals actually allocated at Spending Reviews have historically tended to be much higher than the overall path of public spending announced beforehand, and that this tendency represents "a significant risk" to its forecast.[20]

[19] Office for Budget Responsibility, Economic and fiscal outlook – November 2023, 22 November 2023, Box 4.3 (PDF)

[20] Office for Budget Responsibility, Economic and fiscal outlook – November 2023, 22 November 2023, pp103-104

Some think tanks have suggested that these spending plans are unrealistic. In particular, the Resolution Foundation, an independent think tank on living standards, describes them as a "fiscal fiction" and says that they do not take account of pressures from inflation and wage growth.[21] The Institute for Fiscal Studies has made similar points and described the plans as "extremely challenging" to deliver.[22]

Overseas aid is not returning to 0.7% of national income

In July 2021, the House of Commons voted to approve the Government's policy that spending on overseas aid would return to 0.7% of gross national income (GNI) when two tests were met "on a sustainable basis". These tests were that the country was running a current budget surplus, and that underlying net debt (public debt excluding that held by the Bank of England) was falling.[23]

The OBR's most recent forecasts suggest that both of these tests will now be met in both 2027/28 and 2028/29. However, the 2023 Autumn Statement did not include a return to spending 0.7% of GNI on aid in its plans, saying that:

> The government has committed to return to spending 0.7% of Gross National Income (GNI) on ODA [official development assistance, or overseas aid] when it is not borrowing for day-to-day spending and underlying debt is falling, as reviewed each year against the latest fiscal forecast for the following year. Autumn Statement 2023 confirms that these conditions have not been met for 2024-25.[24]

The condition given in this statement – that the tests are only checked for the next financial year and not for later years in the forecast – appears to be a new policy. It was not in place at the time of the 2021 Spending Review, when the tests were forecast to be met in 2024/25 and funding was accordingly set aside in that year to return to spending 0.7% of GNI.[25]

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21 Resolution Foundation, Preparing the pitch, 6 November 2023

22 Institute for Fiscal Studies, Policy risks to the fiscal outlook (Green Budget chapter 4), 17 October 2023

23 For more detail, see Commons Library research briefing The 0.7% aid target.

24 HM Treasury, Autumn Statement 2023, 22 November 2023

25 HM Treasury, Autumn Budget and Spending Review 2021, 27 October 2021

4 OBR forecasts for the economy

The independent Office for Budget Responsibility (OBR) published new forecasts for the economy and public finances on 22 November 2023, after the Autumn Statement.[26]

The OBR's forecasts are the official forecasts used by the Chancellor for the Autumn Statement. They incorporate the impact of the policy decisions that the Chancellor has announced.[27] The OBR closed its economy forecasts on 24 October.[28]

The OBR's previous forecasts were published in March 2023.[29] This section summarises the new forecasts for the economy and compares them with those in March.

The OBR's forecasts are for the next five years, as usual, taking them up to 2028 for calendar years and 2028/29 for fiscal years (April to March the following year). Quarterly forecasts up to the first quarter (Q1) of 2029 are also published.[30]

4.1 GDP growth

The OBR noted that the economy had been more resilient than it expected in its March 2023 forecasts. Instead of contracting by 0.2%, GDP is now expected to grow by 0.6% in 2023, as shown in the chart below.

However, the OBR has downgraded its expectations for economic growth in 2024 and 2025. This is due to forecast inflation and interest rates being higher than the OBR thought back in March. In turn, this is anticipated to lead to lower consumer spending and investment than thought previously.

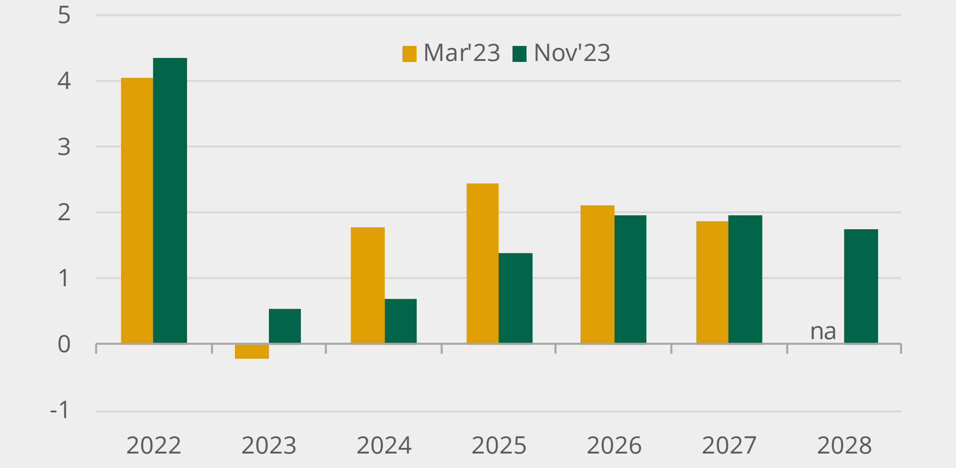
The new GDP growth forecast of 0.7% in 2024 is down from 1.8% forecasted in March, with GDP growth of 1.4% in 2025, lower than the 2.5% expected in March.

26 OBR, Economic and fiscal outlook – November 2023, 22 November 2023
27 There's further information about the OBR in the Library briefing The Office for Budget Responsibility and Box 1 of Autumn Statement 2023: Background briefing.
28 OBR, Economic and fiscal outlook – November 2023, 22 November 2023, p21 footnote 4
29 OBR, Economic and fiscal outlook – March 2023, 15 March 2023
30 All references to OBR forecasts are taken from the OBR's report and supplementary forecast data for the UK economy taken from OBR, Economic and fiscal outlook – November 2023

The OBR says growth will pick up to 2.0% in both 2026 and 2027 as inflation falls. This is predicted to provide a boost to real (inflation-adjusted) wages and therefore consumer spending.

OBR forecasts for GDP growth

Annual % change, comparison of OBR forecasts from Mar'23 and Nov'23



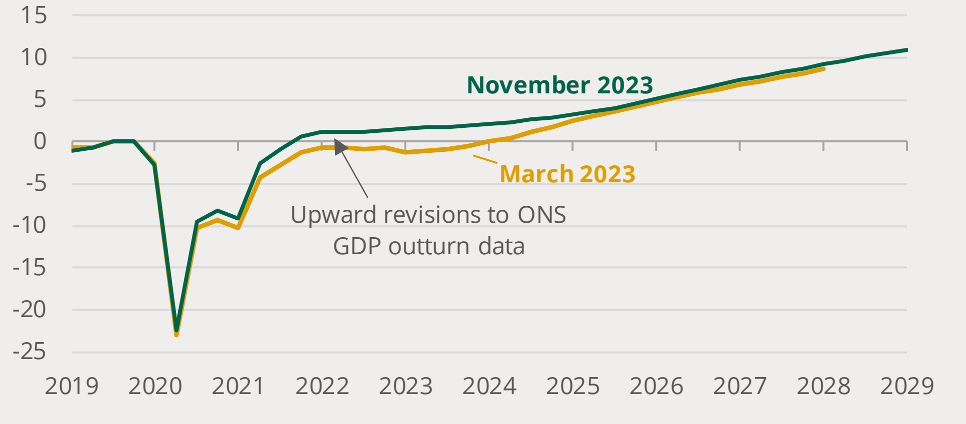
Source: OBR, Economic and fiscal outlook – November 2023, 22 November 2023

Since the OBR's last forecasts, the Office for National Statistics (ONS) has revised up past GDP data, most notably over the pandemic years of 2020 and 2021.[31] The result is that the level of GDP – the value of how much is produced in the UK each year – is higher than the OBR previously thought.

However, as noted, the OBR expects GDP growth to be slower than it did previously. GDP is now expected to grow a total of 6.7% from 2022 to 2027, compared with the previous forecast of 8.3%.

OBR forecasts for level of GDP

% change with GDP level of Q4 2019, comparison of quarterly OBR forecasts



Source: OBR, Economic and fiscal outlook – November 2023, 22 November 2023

31 ONS blog, GDP – Bringing the big picture up-to-date, 29 September 2023

The OBR expects GDP per head to recover to its pre-pandemic level of late 2019 only in early 2025.

The OBR estimates that the Chancellor's measures announced in the Autumn Statement (see section 2.1) provide "a modest boost" to GDP of just under 0.3% on average per year between 2024/25 and 2028/29.[32]

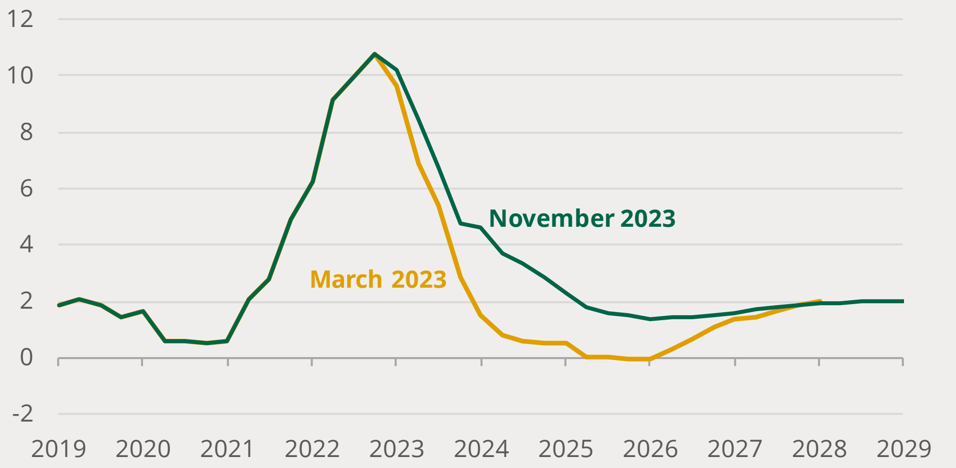
4.2 Inflation

The annual rate of inflation as measured by the consumer prices index (CPI) was higher during 2023 than the OBR expected in its March forecast. The OBR says that inflation was "more persistent and domestically fuelled" than anticipated.[33]

As shown in the chart below, the OBR now forecasts inflation to remain higher for longer, in part due to higher-than-expected growth in earnings, though it still projects the inflation rate to fall in 2024 and 2025. From 6.7% in the third quarter (Q3) of 2023, inflation is forecast to decline to 2.8% in Q4 2024 and below the Bank of England's 2% target in Q2 2025 (1.8%).

OBR forecasts for inflation

%, annual change in CPI, comparison of quarterly OBR forecasts



Source: OBR, Economic and fiscal outlook – November 2023, 22 November 2023

4.3 Household incomes

The OBR said household incomes adjusted for inflation have "proved unexpectedly resilient" since its March forecast. This indicator of incomes

32 OBR, Economic and fiscal outlook – November 2023, 22 November 2023, p5, paras 1.2, 2.9 & Box 2.1
33 OBR, Economic and fiscal outlook – November 2023, 22 November 2023, p5, para 1.1

measures total income across all UK households, after tax and adjusted for inflation.

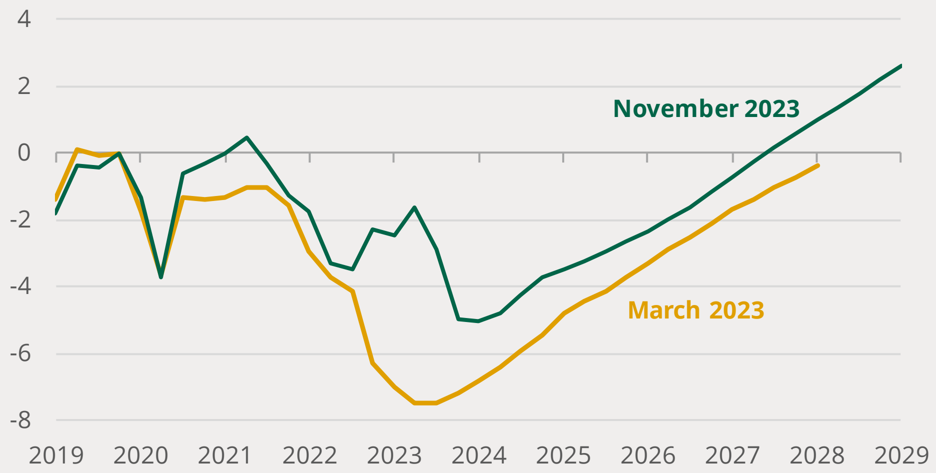
On a per head basis, the OBR now forecasts household incomes to fall by 0.3% in 2023 compared with the previous forecast of a fall of 3.2%.[34] However, the OBR expects this measure of real (inflation-adjusted) income per head to fall by 1.5% in 2024, instead of a 1.2% increase forecast in March. This is because inflation is now forecast to be higher than the OBR previously thought.

From 2025 to 2028, a steadier real growth in incomes per head is forecast, with an annual average increase of 1.5%.

Based on these forecasts, real (inflation-adjusted) post-tax income per head will not return to its pre-pandemic level of Q4 2019 until Q3 2027, as shown in the chart below.[35]

OBR forecasts of real household disposable income per head

% change in income level from Q4 2019, comparison of quarterly OBR forecasts



Source: OBR, Economic and fiscal outlook – November 2023, 22 November 2023

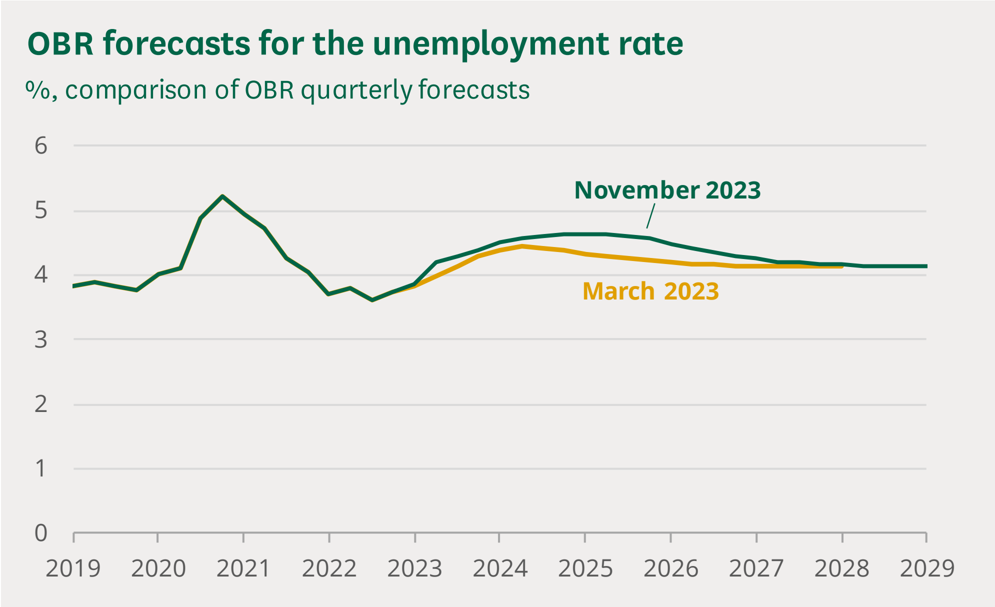
4.4 Unemployment and employment

The OBR anticipates that unemployment will rise during late 2023 and early 2024, as GDP growth slows, with the unemployment rate forecast to peak at 4.6% in 2024 and remain at that level during 2025. This is slightly higher than was expected in March, when the OBR thought it would peak at 4.4%.

34 Library calculations based on OBR supplementary economy table 1.5 and para 2.39 of the OBR EFO

35 Library calculations based on OBR supplementary economy table 1.5 of the OBR EFO

The employment rate – the proportion of adults in work – is forecast to decline from 60.7% in Q3 2023 to 60.2% by Q4 2024.



Source: OBR, Economic and fiscal outlook – November 2023, 22 November 2023

The OBR estimates that the policy measures targeting the long-term unemployed announced by the Chancellor at the Autumn Statement (see section 2.1) will raise employment by 50,000 by 2028/29.[36] In addition, the 2 percentage point reduction in National Insurance contributions is forecast to raise employment by 28,000.[37]

4.5 Business investment

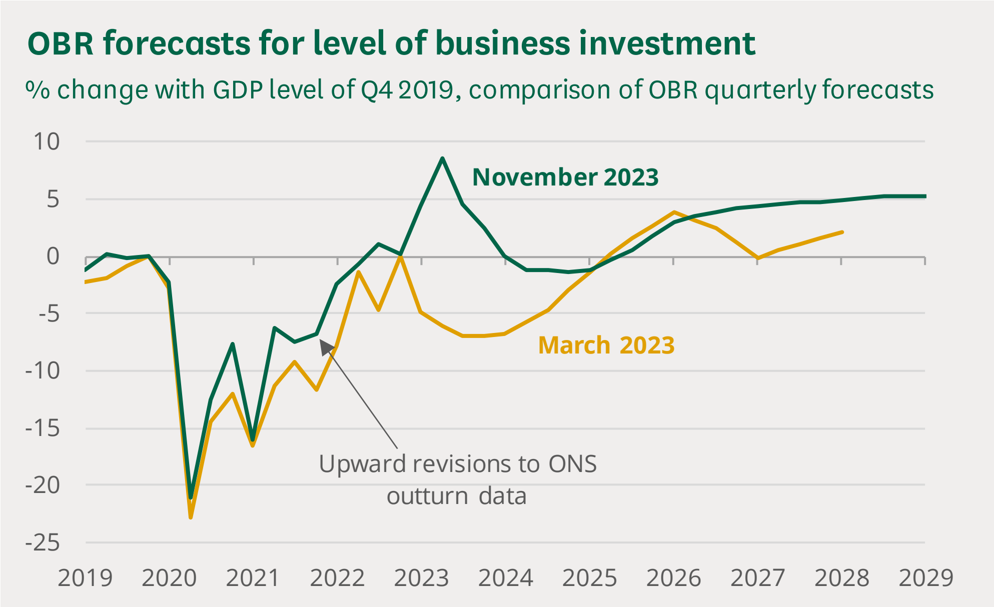
Since the OBR's previous forecasts, the ONS has revised up past business investment data, with the OBR noting that investment had "recovered more completely from the pandemic" than was previously shown.[38]

Business investment has also been stronger in 2023 than the OBR expected.

The OBR is forecasting a fall in business investment in 2024, as past increases in interest rates raise the cost of capital. A return to growth is seen in subsequent years, as shown in the chart below.

The Chancellor's decision to make 'full expensing' (100% capital allowances) permanent is estimated by the OBR to boost business investment by a total of 0.3% of GDP between 2023 and 2027.[39]

36 In full-time equivalent terms
37 In full-time equivalent terms
38 OBR, Economic and fiscal outlook – November 2023, 22 November 2023, p31, para 2.22
39 OBR, Economic and fiscal outlook – November 2023, 22 November 2023, p32, para 2.22



Source: OBR, Economic and fiscal outlook – November 2023, 22 November 2023

4.6 Long-term growth assumptions

The OBR slightly lowered its expectations of how fast the economy could grow under normal conditions over the long-term (called the growth rate in potential output).

The OBR now thinks the economy can grow sustainably by 1.6% per year, down from 1.8% in its March forecast.[40] This is largely because of a slight reduction in its expectation of average hours worked, due to expected demographic shifts among the workforce toward younger and older age groups who work shorter hours on average.

40 OBR, Economic and fiscal outlook – November 2023, 22 November 2023, p6, para 1.6

4.7 Summary of OBR forecasts for the economy

OBR forecasts: economy

Comparison of March 2023 and November 2023 forecasts

	2022	2023	2024	2025	2026	2027	2028
GDP growth, %							
March 2023	4.0	-0.2	1.8	2.5	2.1	1.9	na
November 2023	4.3	0.6	0.7	1.4	2.0	2.0	1.7
GDP level, 2022=100							
March 2023	100.0	99.8	101.6	104.1	106.3	108.3	na
November 2023	100.0	100.6	101.3	102.7	104.7	106.7	108.6
Business investment growth, %							
March 2023	9.9	-2.8	1.3	6.1	1.9	-1.9	na
November 2023	9.6	5.4	-5.6	1.2	3.4	0.9	0.5
ILO unemployment rate, annual ave (%)							
March 2023	3.7	4.1	4.4	4.3	4.2	4.1	na
November 2023	3.7	4.2	4.6	4.6	4.4	4.2	4.1
CPI annual inflation, %							
March 2023	9.1	6.1	0.9	0.1	0.5	1.6	na
November 2023	9.1	7.5	3.6	1.8	1.4	1.7	2.0
Productivity growth, %							
March 2023	0.4	0.1	1.0	1.3	1.2	1.1	na
November 2023	0.7	-0.1	0.8	0.8	1.0	1.1	1.1
Average earnings growth, %							
March 2023	6.2	5.0	1.8	1.7	1.9	2.5	na
November 2023	6.0	6.8	3.7	2.2	2.0	2.5	2.8
Real household disposable income per head, % change on previous year							
March 2023	-3.1	-3.2	1.2	2.0	1.6	1.6	na
November 2023	-2.4	-0.3	-1.5	1.4	1.3	1.7	1.6

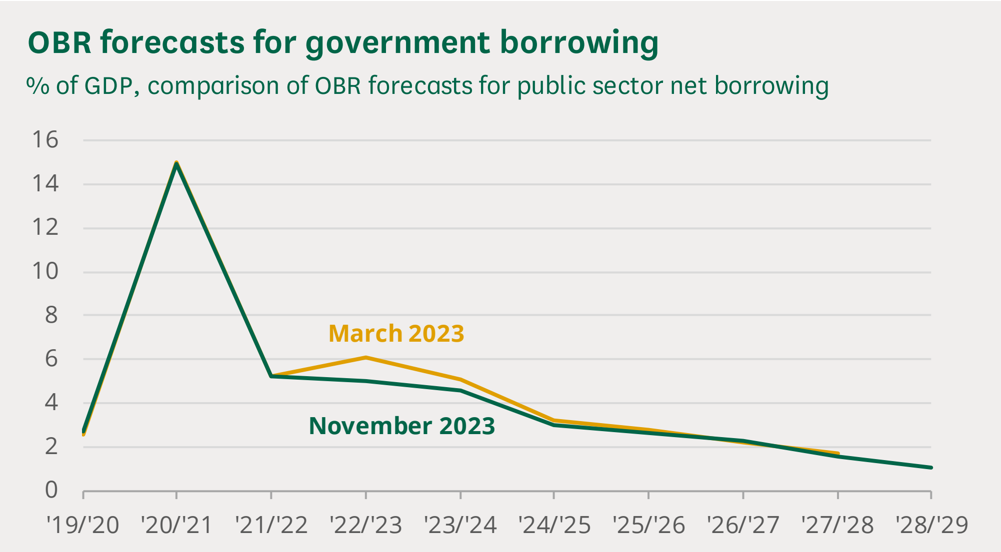
Notes: CPI is consumer prices ondex, ILO is International Labour Organisation; 'na' is not available, as the OBR didn't provide forecasts for 2028 in its March 2023 report
Source: OBR, Economic and fiscal outlook – November 2023, 22 November 2023, table A.1 and Library calculations based on supplementary economy tables 1.1 (GDP level) and 1.5 (income per head)

5 OBR forecasts for the public finances

5.1 Government borrowing

When a government spends more than it raises from taxes and other sources (its receipts), it borrows money, mainly from financial institutions. This is sometimes referred to as the budget deficit.

The Office for Budget Responsibility's (OBR) 22 November forecast is that government borrowing will fall from £128 billion in 2022/23 to £124 billion in 2023/24. Borrowing is then forecast to fall in each financial year before it gets to £35 billion in 2028/29, which is the final year of the OBR's current forecast period. As the chart below shows, a similar pattern is seen for borrowing as a percentage of GDP.



Source: OBR, Economic and fiscal outlook – November 2023, Chart 1.5

The OBR's forecasts for borrowing aren't greatly changed from those in its previous forecast (March 2023). On average, borrowing is forecast to be £0.7 billion lower a year compared with the March 2023 forecast.

The underlying situation has improved…

The OBR produces an 'underlying' forecast, which forecasts borrowing before the Chancellor's Autumn Statement policies are included. Its underlying borrowing forecast is around £18 billion a year lower, on average, compared with the March 2023 forecast.

The OBR expects that higher inflation and earnings will increase tax revenues to a greater extent than welfare spending and debt interest spending will increase.

...but most of the improvement has been spent by the Chancellor

The Chancellor's Autumn Statement policies – summarised in section 2 – directly increase borrowing by around £18 billion a year.

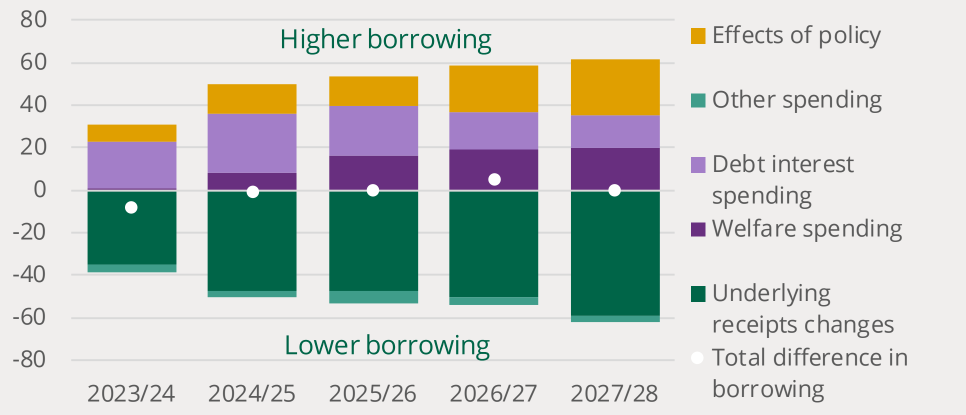
The biggest policies are the cuts to National Insurance contributions (NICs) and making full-expensing permanent:

- Full expensing allows businesses to deduct 100% of all plant and machinery investment spending immediately when calculating taxable profits. Making the policy permanent is forecast to cost an average of £9.1 billion in the final two years of the forecast, 2027/28 and 2028/29.
- The NICs policies are forecast to cost around £8.6 billion a year, from 2024/25. The most significant change to NICs is the 2p reduction in the main rate of employee NICs from January 2024.

The chart below shows the changes in the OBR's forecast since March 2023.

Changes in government borrowing forecast since March 2023

£ billion



Source: OBR, Economic and fiscal outlook – November 2023, Chart 4.15

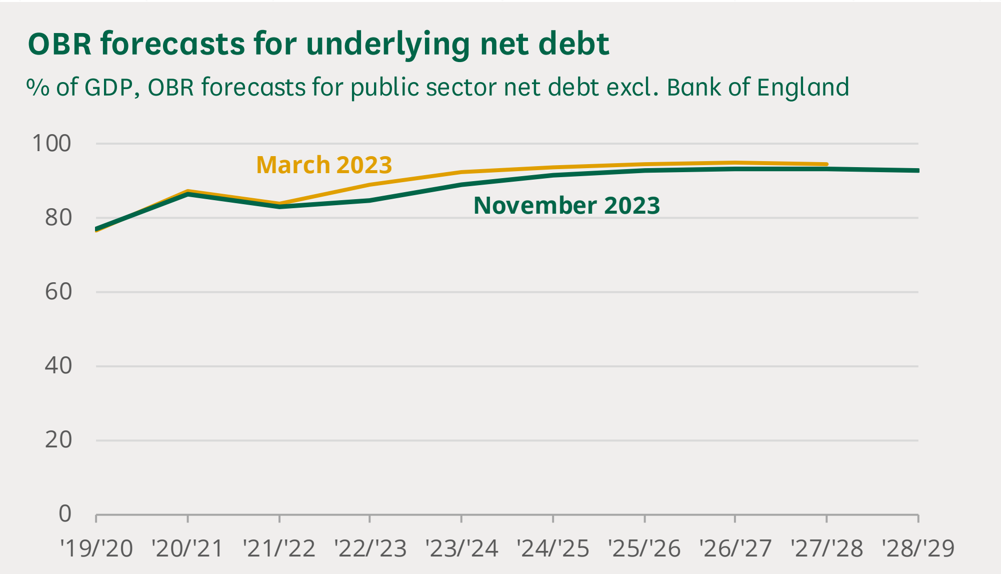
5.2 Government debt

The government's underlying debt was equivalent to 84.9% of GDP at the end of 2022/23. On 22 November, the OBR forecast that it will increase each year before reaching 93.2% of GDP in 2026/27. It will then remain similar in 2027/28 before falling to 92.8% of GDP in 2028/29.

Government debt hasn't consistently been above 90% of GDP since the early 1960s, although it has been higher and exceeded 200% of GDP following World War II.

The government's underlying debt excludes the Bank of England's contribution to net debt. Underlying government debt is said to be more closely associated with government choices around spending and tax than the measure including the Bank's contribution. 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. [41] It is the measure of debt used in the Government's debt target.

The OBR now forecasts that the Government's underlying debt will be lower in all years of its forecast than it forecast in March 2023. It has revised down its forecast by an average of 2.1% of GDP in the years to 2027/28. This is mainly because the OBR now forecasts that the cash size of the economy, as measured by GDP, will be larger than previously forecast.



Source: OBR, Economic and fiscal outlook – November 2023, Chart 1.6

5.3 The Chancellor's fiscal targets

In February 2023, the House of Commons approved revised targets for the public finances.[42] The targets, which cover government debt and borrowing, are often referred to as the "fiscal targets". Both targets are currently being met in the OBR's forecast.

41 IFS, Green Budget 2021, October 2021, Box 3.1; HM Treasury, Autumn Budget and Spending Review 2021, para A.21.

42 HC Deb 6 February 2023 [Charter for Budget Responsibility].

The debt target is that government debt should be falling, as a % of GDP, by the fifth year of the OBR's forecast (currently, 2028/29). This target focuses on the government's underlying debt (excluding the Bank of England), as discussed above. The Government is forecast to meet this target by a margin of 0.4% of GDP, which is around £13 billion. This is a larger margin than the OBR forecast in March 2023.[43]

The borrowing target is for government borrowing to not exceed 3% of GDP by the fifth year of the forecast period. The target is being met in the OBR's forecast by a margin 1.9% of GDP, which is around £62 billion. For this target, the margin, or headroom, has increased from around £39 billion in the March forecast.[44]

The Government also has a cap on welfare spending called the welfare cap. The only formal assessment of this comes in the first Budget of a Parliament. However, the OBR monitors progress between these official assessments. In its forecast, the OBR assesses that the welfare cap is on course to be missed by around £9 billion.[45]

The Library briefing The UK's fiscal targets discusses the targets and their predecessors.

[43] OBR, Economic and fiscal outlook – November 2023, Table 5.1
[44] OBR, Economic and fiscal outlook – November 2023, Table 5.1
[45] OBR, Economic and fiscal outlook – November 2023, Table 5.1

5.4 Summary of OBR forecasts for the public finances

OBR forecasts: public finances

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Net borrowing (PSNB), £ billion							
March 2023	152.4	131.6	85.4	76.7	63.5	49.3	na
November 2023	128.3	123.9	84.6	76.8	68.4	49.1	35.0
Net borrowing (PSNB), % of GDP							
March 2023	6.1	5.1	3.2	2.8	2.2	1.7	na
November 2023	5.0	4.5	3.0	2.7	2.3	1.6	1.1
Current budget deficit, % of GDP							
March 2023	3.7	2.3	0.5	0.3	0.0	-0.4	na
November 2023	3.2	1.9	0.5	0.5	0.2	-0.3	-0.7
Net debt (PSND), £ billion							
March 2023	2,546	2,702	2,782	2,776	2,830	2,909	na
November 2023	2,538	2,702	2,802	2,829	2,914	3,004	3,081
Net debt (PSND), % of GDP							
March 2023	100.6	103.1	102.4	99.1	97.6	96.9	na
November 2023	95.8	97.9	98.6	96.3	95.5	95.0	94.1
Net debt (PSND) excluding Bank of England, % of GDP							
March 2023	88.9	92.4	93.7	94.6	94.8	94.6	na
November 2023	84.9	89.0	91.6	92.7	93.2	93.2	92.8
Central government net debt interest, £ billion							
March 2023	114.7	94.0	77.3	76.9	88.7	96.5	na
November 2023	111.2	116.2	106.2	101.9	108.8	115.2	122.5

6 What happens next?

Traditionally, Parliament's role in the Autumn Statement ends once the Chancellor finishes answering questions from the Shadow Chancellor and other MPs following the statement in the Commons. However, the Chancellor wants to legislate for tax changes announced in the statement, ultimately in the Autumn Finance Bill 2023 which will have to pass through Parliament.

Immediately after the Autumn Statement, the Chancellor moved a provisional collection of taxes motion, so that changes to tobacco duty (see section 2.1) could take effect at 6pm on 22 November.

The Autumn Statement will be followed by Commons debates on Autumn Statement ways and means resolutions, which MPs will be asked to approve afterwards. The resolutions are specific proposals for taxation and allow the House to legislate for tax changes in the Finance Bill.

The Finance Bill gives legal effect to the taxation proposals contained within the ways and means resolutions which are agreed after the Autumn Statement debate. The Autumn Finance Bill 2023 may also cover other matters relating to the administration of the tax system.

As the Library Insight What is the Autumn Statement? explains, a similar scenario happened following the 2022 Autumn Statement. The then Exchequer Secretary said the Government introduced a finance bill at that time to "help stabilise the public finances" and to "provide certainty to the markets".[46]

The procedure being followed this year (and following the 2022 Autumn Statement) is mostly similar to a Budget. There is further information about the process and Parliament's role in the following:

- House of Commons Library, What is the Autumn Statement, 13 November 2023
- House of Commons Library, The Budget and the annual Finance Bill, 21 September 2023
- UK Parliament, MP's Guide to Procedure: Budget and Finance Bill

[46] HC Deb 28 November 2023 c691

6.1 Changes to National Insurance

In his speech, the Chancellor said he will introduce urgent legislation on 23 November to bring in changes to National Insurance from 6 January 2024.

Statutory provisions regarding NICs are not included in the Autumn Finance Bill 2023 so separate legislation is required.