

AUTUMN STATEMENT 2023



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'Giveaway' Autumn Statement shows that Conservatives want to make next election about tax and spend



BY GARETH JONES

Director
Advocacy & Communications

Jeremy Hunt sought to make a big impact with this week's Autumn Statement with two big announcements - to cut national insurance by two percentage points and make business investment tax relief permanent - as part of a £20 billion tax giveaway. The Chancellor proudly justified these measures by stressing that lower tax means higher growth, stating that "we cut taxes to help businesses invest" and for working people "whose hard work drives our economy forward".

Not only are these measures significant in their own right (the cut in NI will take effect in January for 27 million people) but also point the way for the coming year in terms of likely economic and fiscal policy as well as government's likely narrative going into the general election.

Hunt outlined his "Autumn Statement for Growth" which contained 110 growth measures for growth. Much of these involves measures such as expediting planning approvals, providing subsidies for manufacturing, and establishing new regional investment zones. There were also measures, previously flagged in the Chancellor's Mansion House speech, to reform the pensions market to unlock investment into high growth sectors and generate increased returns for savers.

Normally, when a chancellor has this many announcements in a budget, it is done to cover up the lack of unifying strategy or purpose. However, in this case, it could certainly be argued that there was a coherent message from the government - the Conservatives would maintain fiscal stability, focus on cutting taxes, rely on private sector investment and innovation to provide growth and maintain a "disciplined" approach to public spending.

It's perhaps easy to forget that this was only Hunt's third fiscal announcement and it followed from his very austere Autumn Statement made at the end of last year (which involved clearing up some of the mess from Liz Truss' 'Mini Budget') and his cautious Budget back in March. Now we have Hunt in pre-election giveaway mode which can be delivered thanks to the country having "turned a corner". This was a clear reference to ONS figures from last week showing that inflation was finally coming down and hitting the government's target.

Overall, however, the economic news is not looking great for the government. While the UK averted a recession this year, with a revised forecast showing a 0.6% growth instead of a 0.2% contraction, the OBR revised down its 2024 estimates from 1.8% growth to a more modest 0.7%, along with significant downward

revisions in the longer term. Overall, these are not great forecasts for the country's economic prospects and suggest that growth measures outlined in the Statement will have limited effect.

It is perhaps slightly ironic then, that it was the UK's high inflation that ended up providing much of the 'fiscal headroom' thanks to the effect of fiscal drag (whereby the combination of higher pay resulting from inflation and the freezing of tax threshold has captured many more people into paying higher rates of tax than previously - which will generate an additional £45 billion for the Treasury). This allowed the Chancellor to provide his 'giveaways' and provide the basis for much of his positive political message, despite the otherwise gloomy economic news.

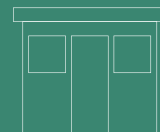
Of course, to work as a political message, it relies on some fairly big assumptions. The first is an acceptance that tax is not, in fact, going up. The second is that the significant cuts to public services outlined to take place after the general election can, in fact, be delivered.

This relies on the Chancellor getting the benefit of the doubt from his own backbenchers and supporters - and also the wider electorate. A further round of giveaways at the Budget next March would certainly help the government underline its message as tax cutters going into the election. It's also worth stressing that the Chancellor doesn't need to convince everybody (there are always policy wonks to pick holes in the fiscal statements). He merely needs to frame his position effectively against a 'tax and spend' Labour Party in the minds of swing voters.

One noticeable distinction with Labour was the lack of capital spending. The Autumn Statement sets out a long-term cash freeze in investment spending, which contrasts rather significantly with Labour's plan for public investment in infrastructure under its 'Green Prosperity Plan'. This is clearly a deliberate move to create some effective dividing lines and criticise Labour for making unaffordable spending commitments (expect lots of attacks on Labour £28 billion spending commitments in the next few months).

The big question for the Conservative Party is will this approach work? And will it help revive the party's fortunes in the polls? It's fair to say that this has more chance of succeeding that some of the Prime Minister's recent attempts to 'reset' his government. Tax cuts are nearly always popular among voters - and will help unify and shore up support among the right and centre-right of the party. The attempt at drawing dividing lines with Labour on tax and fiscal policy is reminiscent of George Osborne's approach during the 2010-2015 parliament (it is perhaps not a coincidence that this approach has been adopted a week after David Cameron's return to government).

But any significant boost is by no means a given. Many could feel that the Conservative Party's attempt to present themselves as tax cutters as 'too little too late', particularly after a sustained period of falling living standards and tax rises in the preceding years - particularly as the man responsible for much of these tax rises, now sits in Number 10. Nevertheless, the Conservatives will see this approach as their best fighting chance going into the next election.



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Labour's response



BY IMOGEN SHAW

Account Director
Advocacy

In response to Jeremy Hunt's Autumn Statement on Wednesday, the Labour Party refrained from criticising any of the Chancellor's specific policy announcements on their own terms. This was quite clearly a strategic approach, as Labour seeks to avoid potential traps set by the government as the next general election draws nearer. Labour wants to make it as difficult as possible for the Conservatives to try and present them as the party of higher taxes, and Shadow Chancellor Rachel Reeves' response to the Chancellor reflected this.

Reeves refrained from challenging the announcement of a 2-percentage point cut in the main rate of national insurance. Instead, she expressed her long-standing view that taxes on working individuals are excessively high, pointing out that stealth increases in taxes on working people had resulted in the equivalent of a 10p increase in national insurance payments. According to her, the government's proposed cuts would not adequately offset this rise.

She argued that the root cause of this was fiscal drag, which occurs when households pay a higher rate of income tax due to the government's failure to adjust tax thresholds in line with wage inflation.

With a general election anticipated next year, Labour's decision not to criticise Hunt's policies underscores the increasing apparent alignment of economic visions between the two major parties. While Labour maintains a roughly 20-point polling lead over the Tories, both parties are in a battle to convince voters of their ability to stimulate growth without committing to further tax increases or borrowing.

Indeed, Reeves expressed support for the government's decision to make business investment tax relief permanent, emphasising that her party had been advocating for this move. However, she noted that it does not compensate for the uncertainty businesses have faced with fluctuating taxes.

In response to the government's pension system reform announcement, Reeves indicated that Labour would go further by encouraging pension pots to be invested in British start-ups in the event of winning the election.

The Shadow Chancellor also notably did not criticise Hunt's welfare cuts or the Conservative Party's new 'crackdown' on benefit claimants refusing offered jobs. Instead, she emphasised the need to grow the economy by increasing employment, advocating for the replacement of the Work Capability Assessment to encourage people to seek work.

The response of the lobby, both to Hunt's statement and Reeves' response, was largely positive. While the government can temporarily bask in the best set of front pages it has seen in quite a while, Reeves won plaudits for her savvy response to what was, by media reaction metrics, a good Autumn Statement.

However, there are potential pitfalls for both parties ahead. While Hunt's statement made much of the achievement of the Prime Minister's goal to halve inflation, as a general election draws nearer, it will become more difficult to get away from the fact that few of the PM's other goals for his leadership - most prominently 'stopping the boats' - look likely to have been achieved.

For Reeves and for Labour, the challenge comes after a potential general election victory. Reeves has been careful not to criticise the Chancellor's tax cuts, but in government Labour will not be able to avoid the issues that having less money to invest will create for their ambitious plans to revitalise Britain's public services and drive a mass build-out of new housing and infrastructure. Labour's commitment to its fiscal rules and cautious economic messaging is electorally sensible. By necessity, some of it will not survive contact with being the party of government - and Labour will need to figure out a way to manage this.



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If you have any questions or would like to discuss how the measures announced in the Autumn Statement 2023 affect your organisation, please contact: publicaffairs@secnewgate.co.uk

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