

Breakfast Briefing: Spring Budget 2024.

Thursday 14 March 2024 - 8:30 am to 10:30 am



WELCOME

We will start shortly ...

Breakfast Briefing: Spring Budget 2024.

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Our Chair



Olivia Cooper

Senior Consultant at Kingsley Napley

Our speakers



James Smith

Research Director at Resolution Foundation



Sam Cartwright

Chief UK Economist at Société Générale

French Chamber of Great Britain, Breakfast Briefing: Spring Budget

Société Générale, 14 March 2024

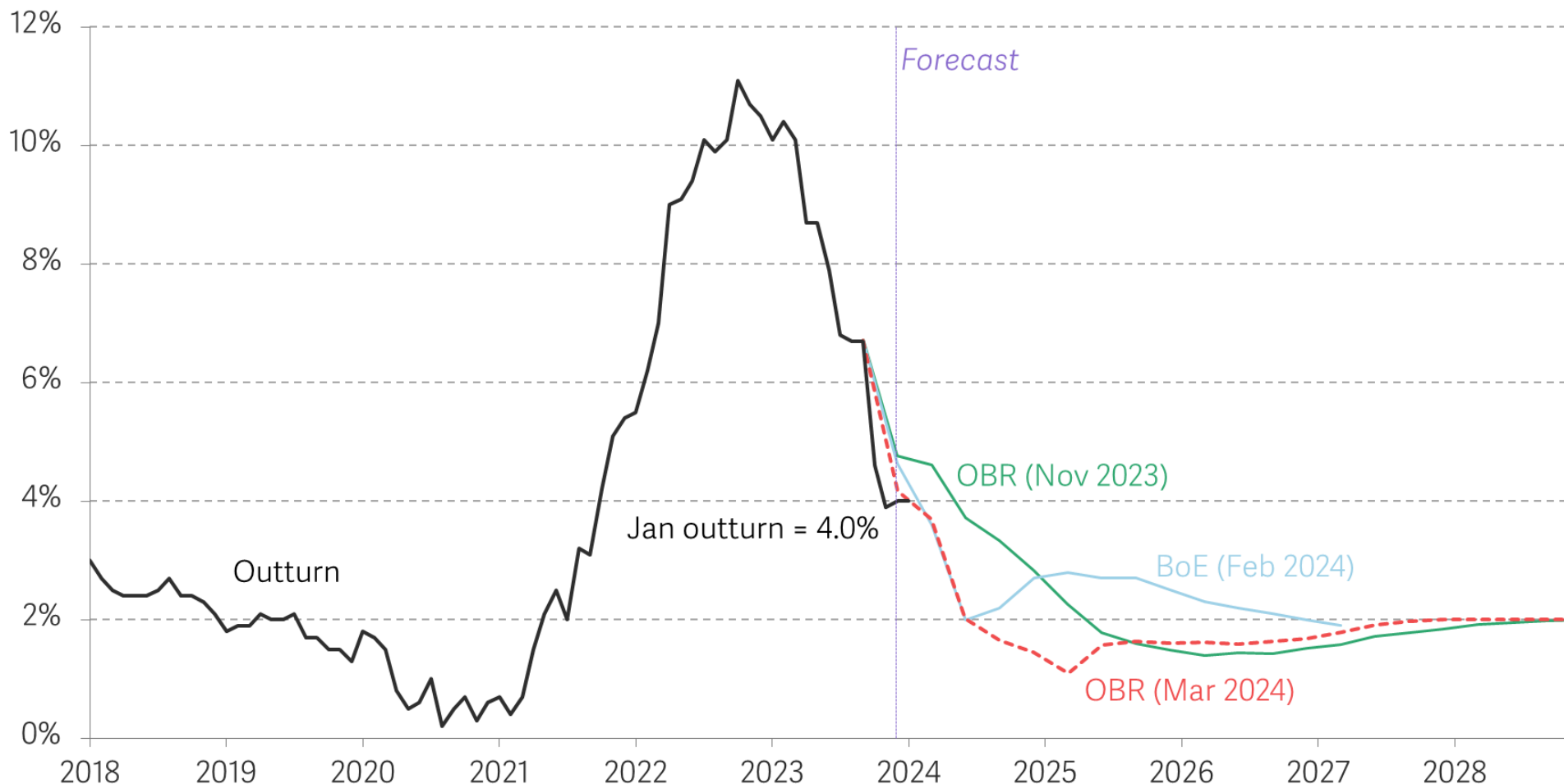
James Smith, Research Director, Resolution Foundation

You may have heard there's going to be an election this year...



The inflation outlook has changed markedly...

CPI inflation, outturns with OBR and Bank of England forecasts: UK

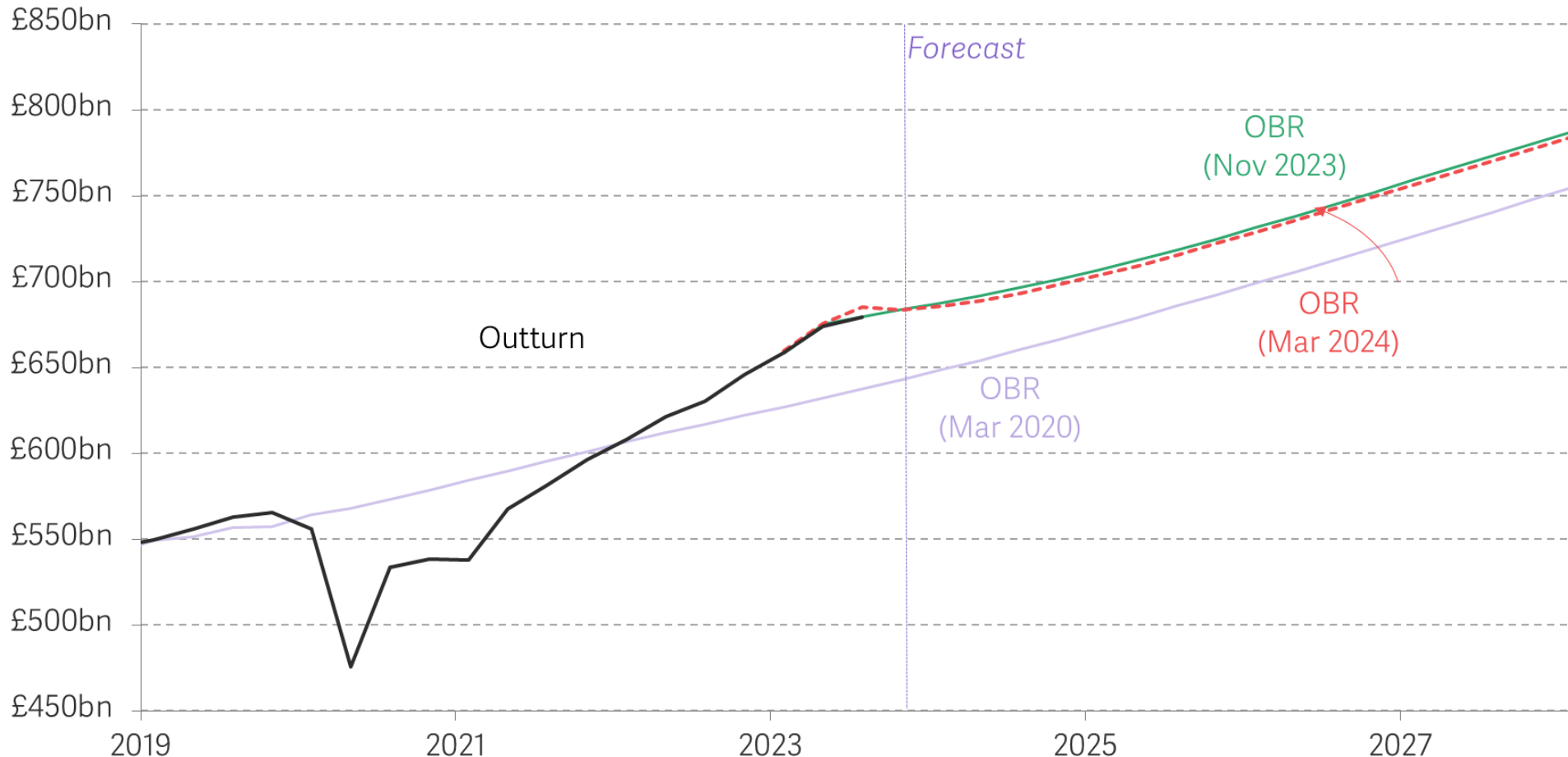


Short-term rates
are around 0.75pp
lower than in
November, gilt
yields down 0.5pp

Source: RF analysis of ONS, Consumer price inflation; Bank of England, February 2024, various; OBR, Economic and Fiscal Outlook, various.

...which means the cash size of the economy is smaller

Real GDP (left panel) and nominal GDP (right panel), outturns and Bank of England and OBR forecasts: UK



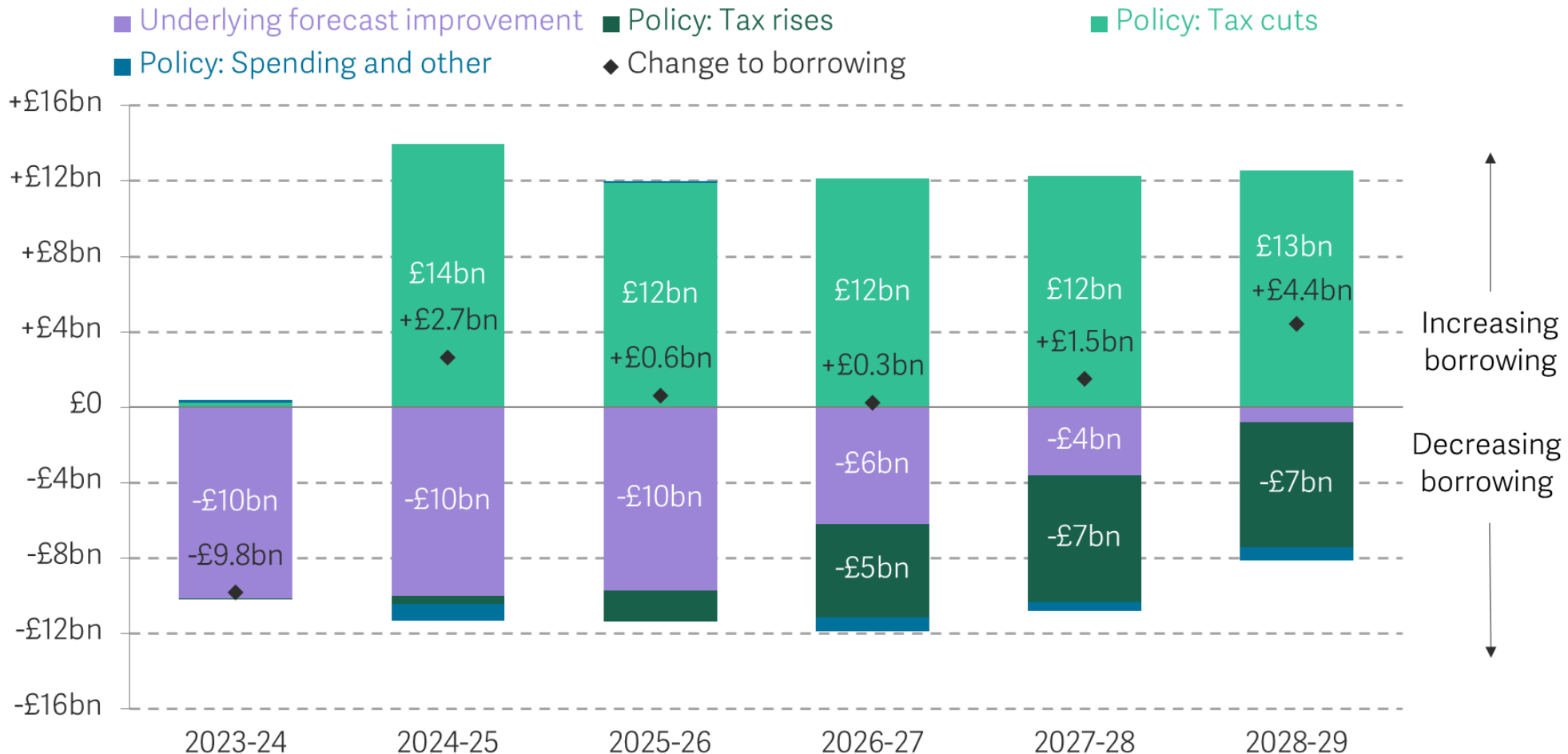
Real GDP ends the forecast little changed (just 0.1% above November)

But the cash size of the economy is 0.3% smaller reflecting weak inflation

Notes: All real measures are rebased and re-referenced to 2019.
Source: RF analysis of ONS, National Accounts; Bank of England, Monetary Policy Report, various; OBR, Economic and Fiscal Outlook, various.

By 2029, the Chancellor needs to raise money to fund tax cuts

Change in public sector net borrowing between November 2023 and March 2024 forecasts



The Chancellor announced nearly £65bn of tax cuts over the next 5 years

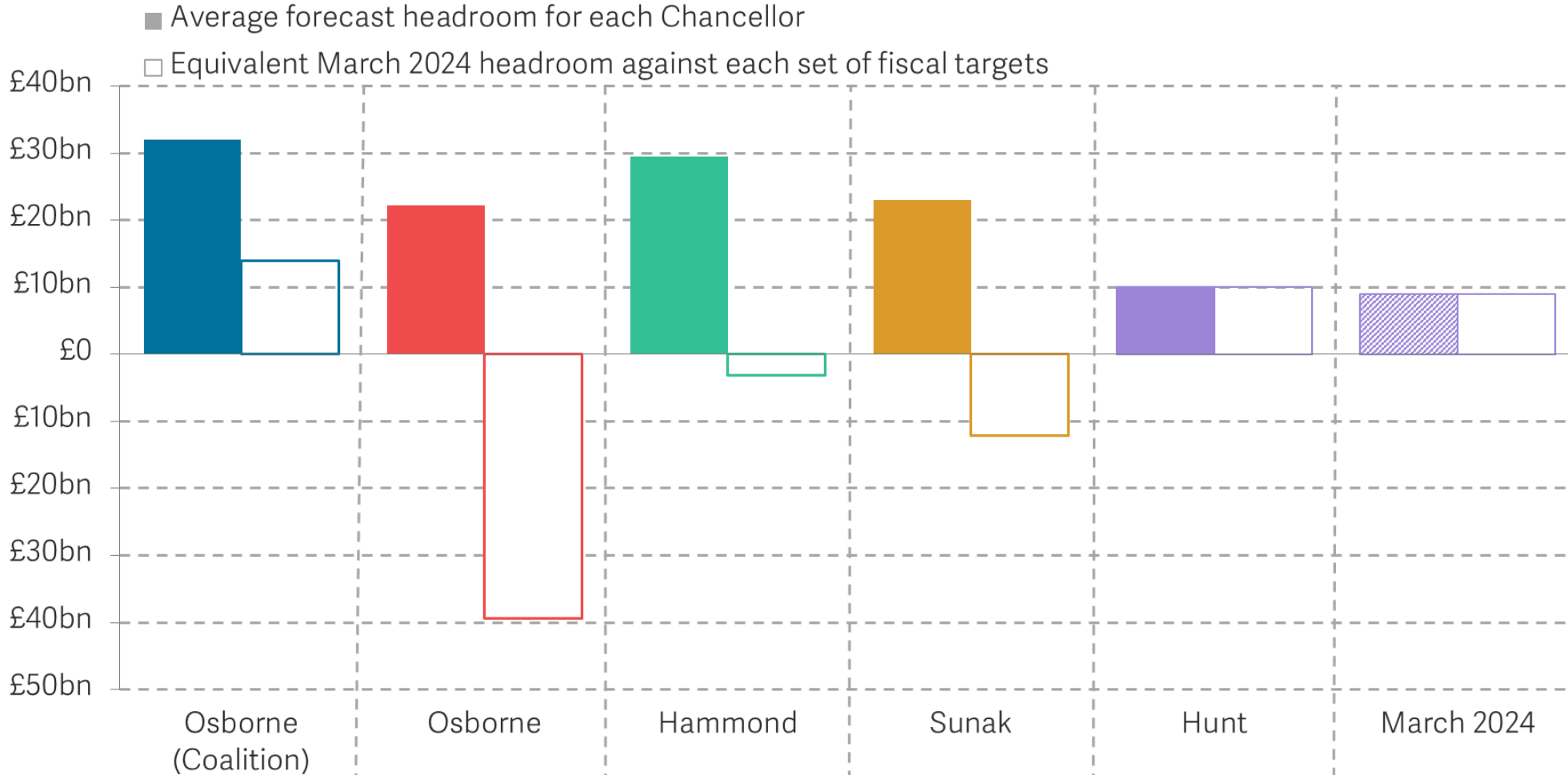
Funded by:

- £30bn underlying improvement
- £10bn extra borrowing
- £19bn of tax rises

Source: RF analysis of OBR, Economic and Fiscal Outlook, March 2024.

This leaves fiscal buffers wafer thin

Average forecast headroom by Chancellor, and equivalent March 2024 headroom against previous fiscal targets



This 'headroom' is second smallest on record (at £8.9bn) and is a third of the average level of past Chancellors

Notes: The equivalent March 2024 headroom measures compare to the following past fiscal targets: 'Osborne (Coalition)' fiscal targets relate to balancing the cyclically-adjusted current deficit in five years; 'Osborne' relates to balancing public sector net borrowing in five years (original rule required this to be met in 2019-20, and then in each subsequent year); 'Hammond' relates to cyclically adjusted public sector net borrowing being less than 2 per cent of GDP in three years (rule referred to a fixed target year while it was in place, so comparison uses the average time left to reach the rule over the term it applied); 'Sunak' relates to public sector net debt (excluding the Bank of England) falling as a proportion of GDP in three years. Source: RF analysis of OBR, Economic and Fiscal Outlook, March 2024.

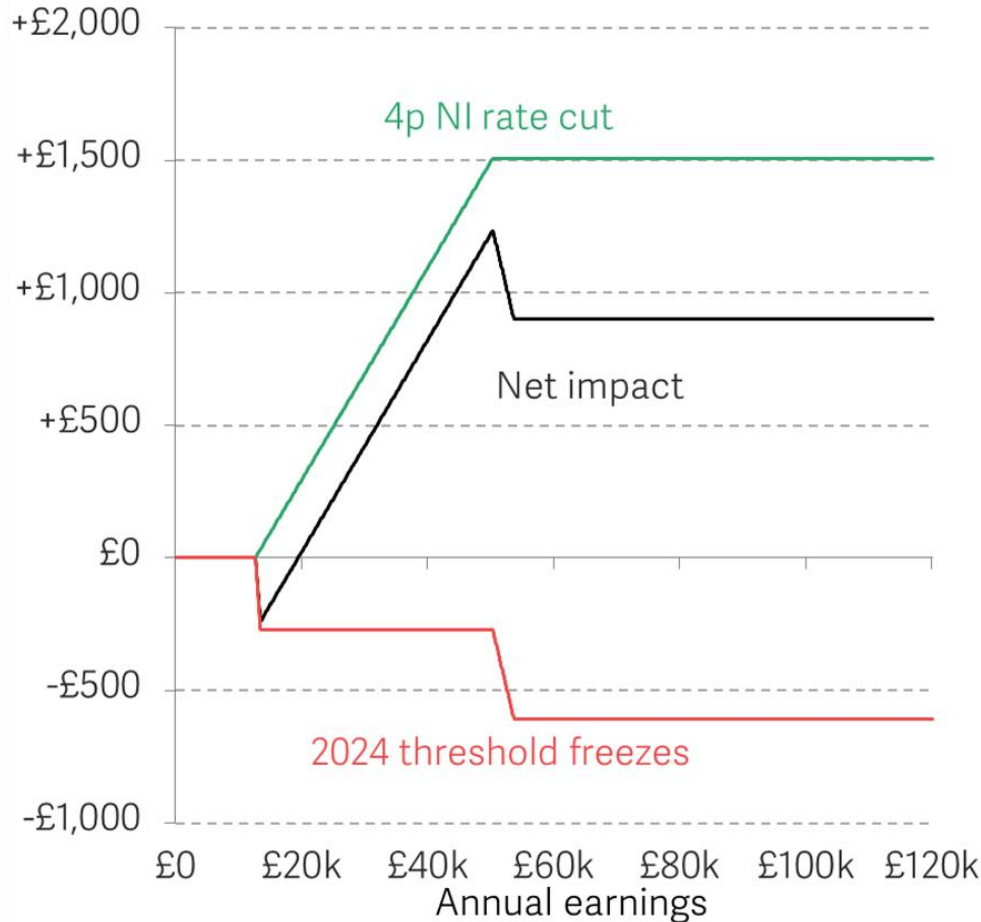
Are taxes going up or down?



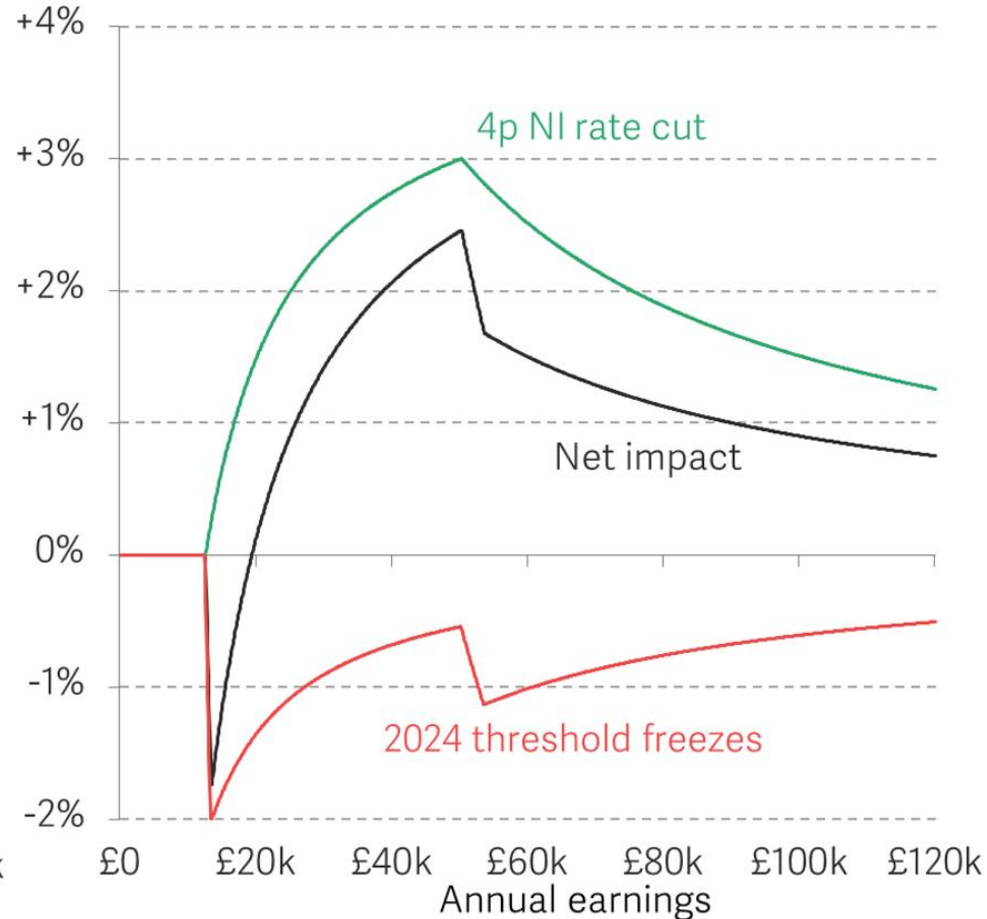
Headline was a second 2p NI rate cut in just four months

Impact on employees of Income Tax and employee National Insurance changes taking effect in 2024: UK excluding Scotland

Absolute annual gain (+) or loss (-)



Gain (+) or loss (-) as a share of gross earnings



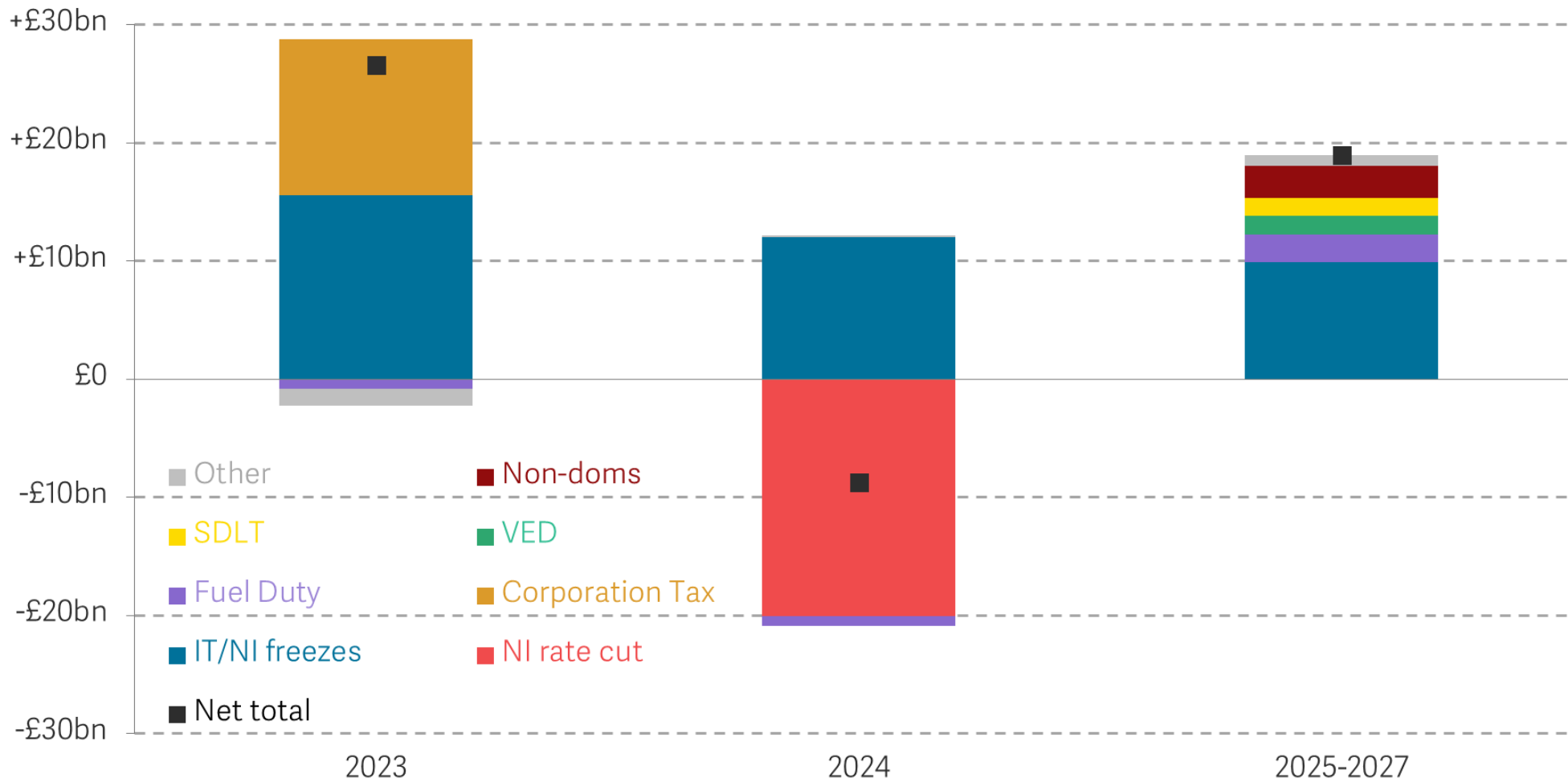
NI to lowest level since 1980s with 78% of NI gains go to top half of households

79% of employees paying less tax in 2024-25 (£450 cut on average for tax payers)

Notes: Freeze is relative to the £12,570 and £50,270 Income Tax and National Insurance thresholds rising in line with 6.7 per cent inflation. Does not include the negative impact of employer National Insurance policies, nor Universal Credit means-testing.
Source: RF analysis.

But tax cuts 'sandwiched' between tax rises

Net impact of major tax measures in 2027-28, by year of implementation: UK



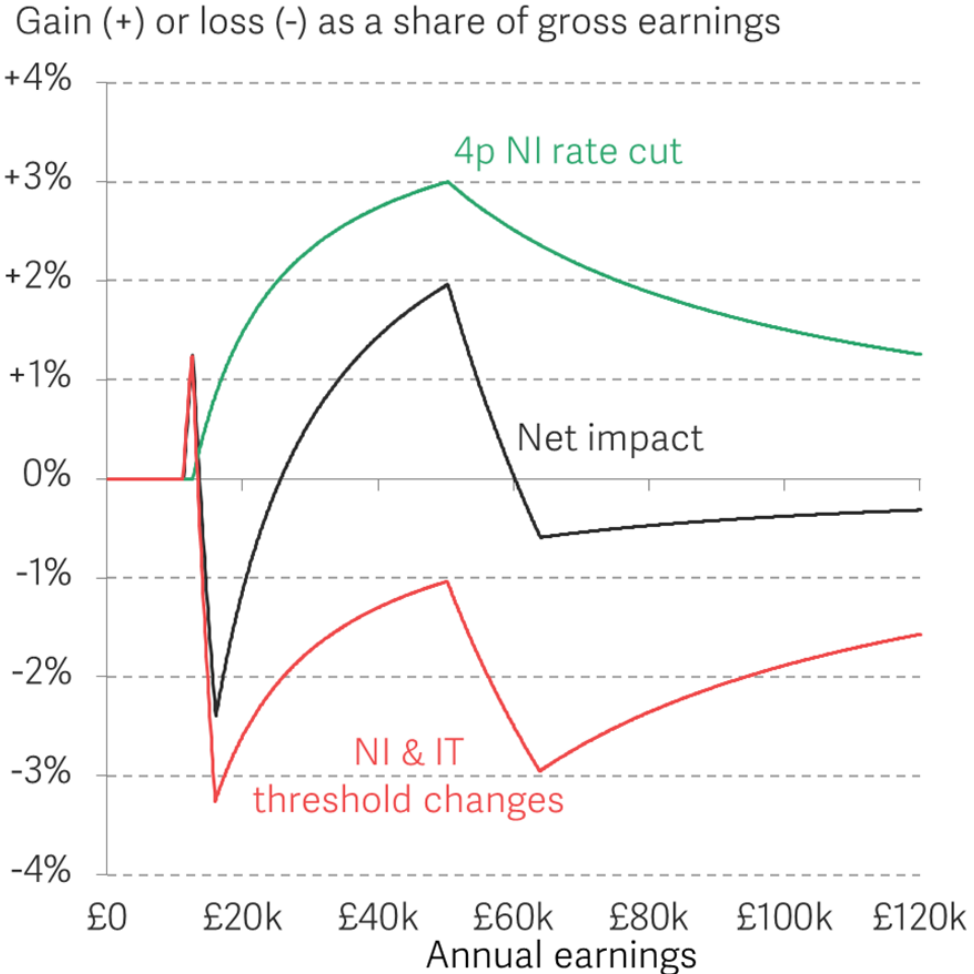
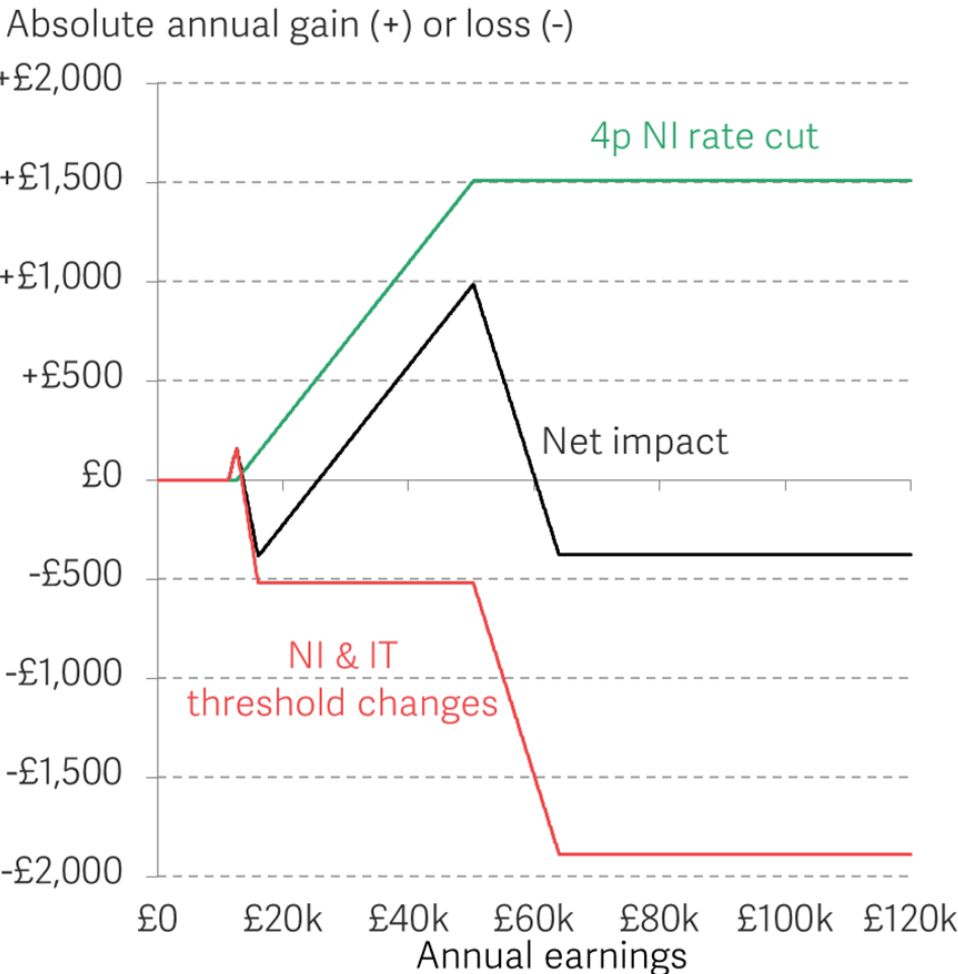
The total net personal tax giveaway this year is ~£8bn

£19bn of tax rises are planned for the year after the election

Notes: This is not a comprehensive list. Minor tax changes, business rate reliefs and anti-avoidance measures have been excluded. 'Other' includes changes in CGT and dividend tax, the additional rate threshold, the business rate multiplier, the High Income Child Benefit Charge, tobacco duties, APD, multiple dwellings relief, furnished holiday lets.
Source: RF analysis.

Measures over the parliament have benefited employees in the middle

Impact on employees of Income Tax and employee National Insurance policies in 2027-28: UK excluding Scotland



Those earning £26,000 to £60,000 are the net winners by 2027-28

55% of employees gain

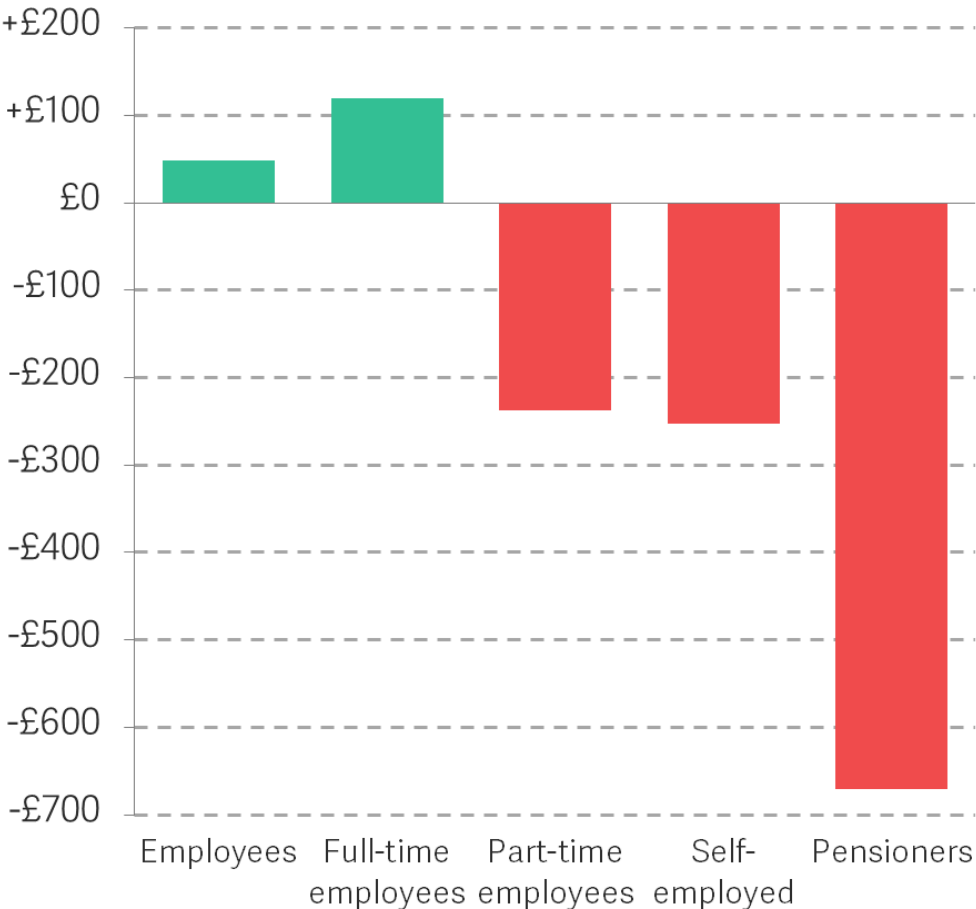
Full-time employees on avg gain £120

Notes: Does not include the negative impact of employer National Insurance policies, nor Universal Credit means-testing. Precise impact of future freezes will depend on levels of inflation. Source: RF analysis, including inflation forecast from OBR, Economic and Fiscal Outlook, March 2024.

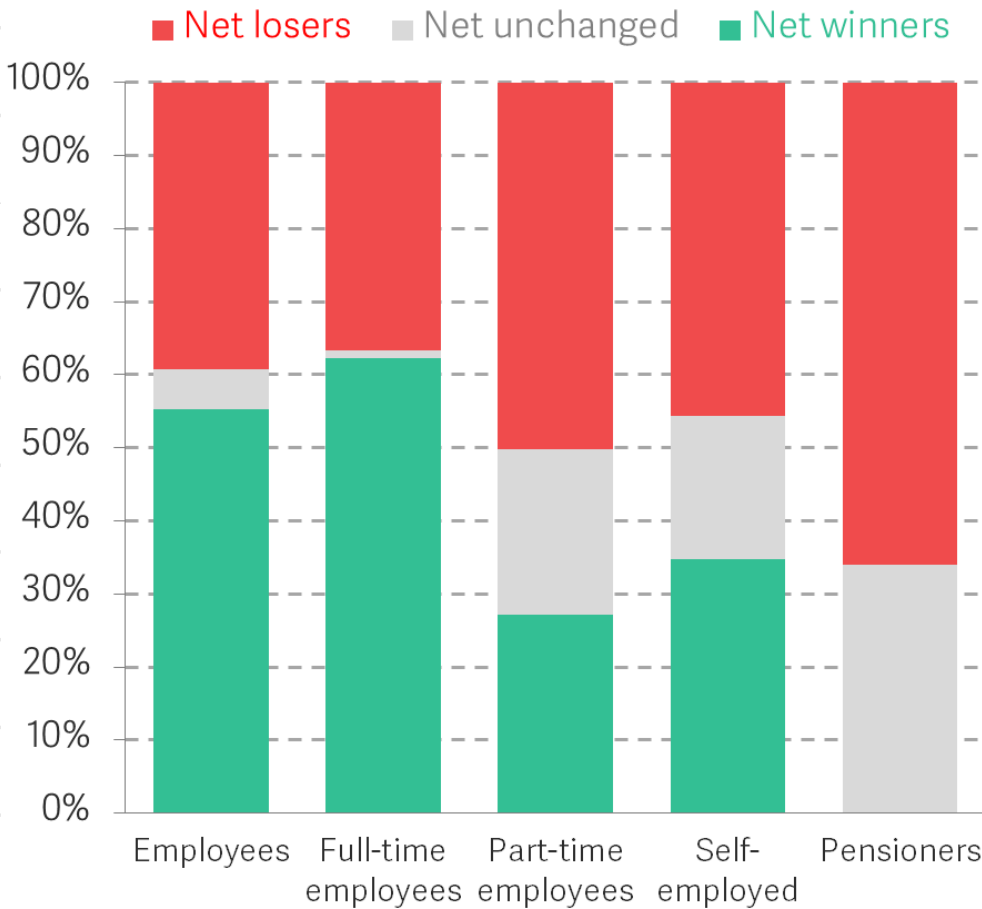
But personal taxes are going up – so who is losing?

Net individual impact of this Parliament’s Income Tax and personal National Insurance changes in 2027-28 by group: UK

Average annual gain (ignoring employer National Insurance)



Share winning or losing (ignoring employer National Insurance)



Threshold freezes raise £41bn and NI rate cuts give back £21bn...

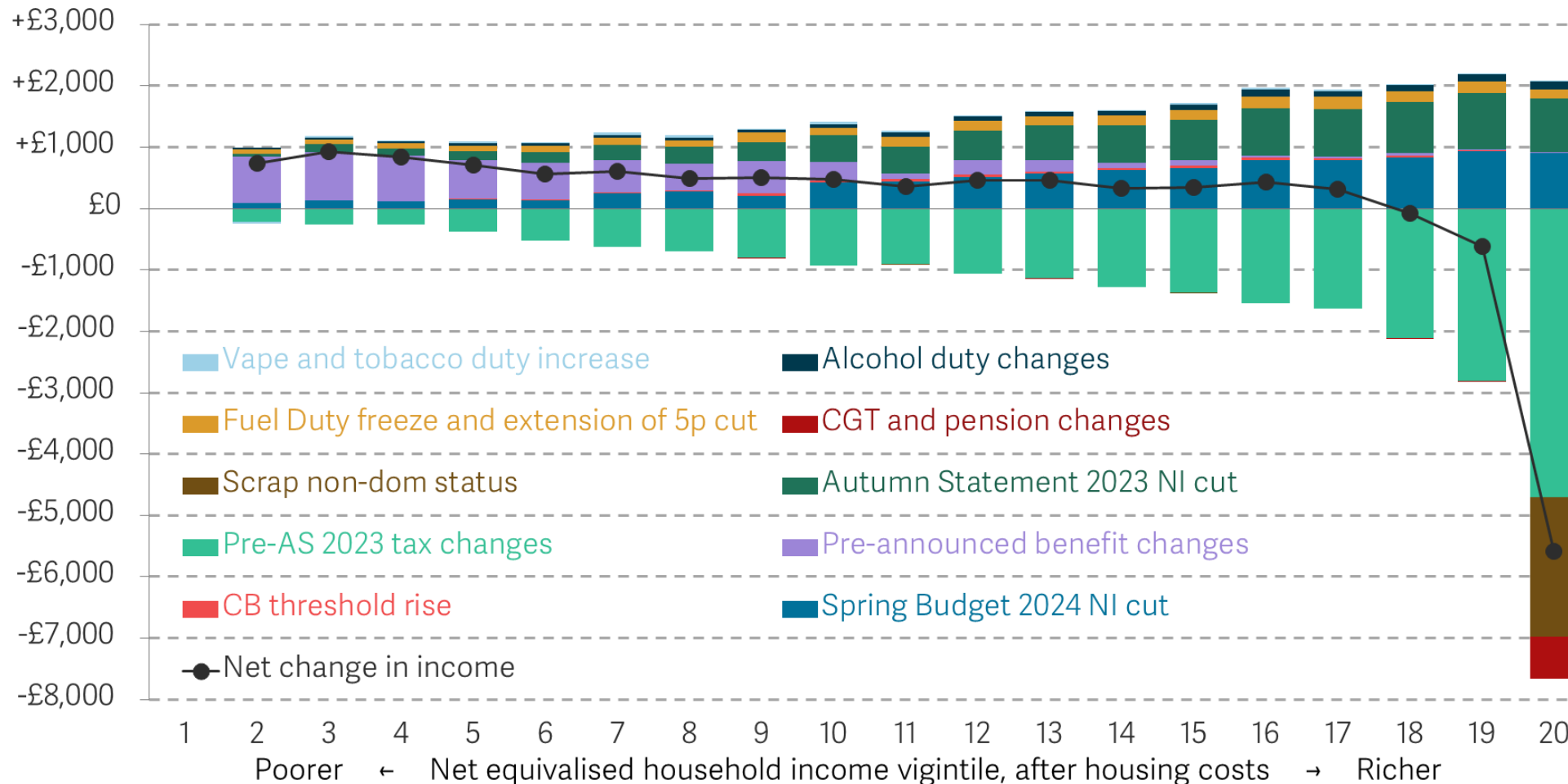
...so part-time employees, the self-employed and all tax-paying pensioners are worse off

Notes: This does not account for the freezing of the employer NI threshold, which might be expected to lower pay. Precise impact of future freezes will depend on levels of inflation.

Source: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model, including inflation forecast from OBR, Economic and Fiscal Outlook, March 2024.

Big change in approach: richer and older people hit hardest

Impact of all permanent tax and benefit policies announced this Parliament, by income vigintile: UK, 2027-28



Households in the bottom fifth gain by £840 on average but those in the top fifth will lose out by an average of £1,500

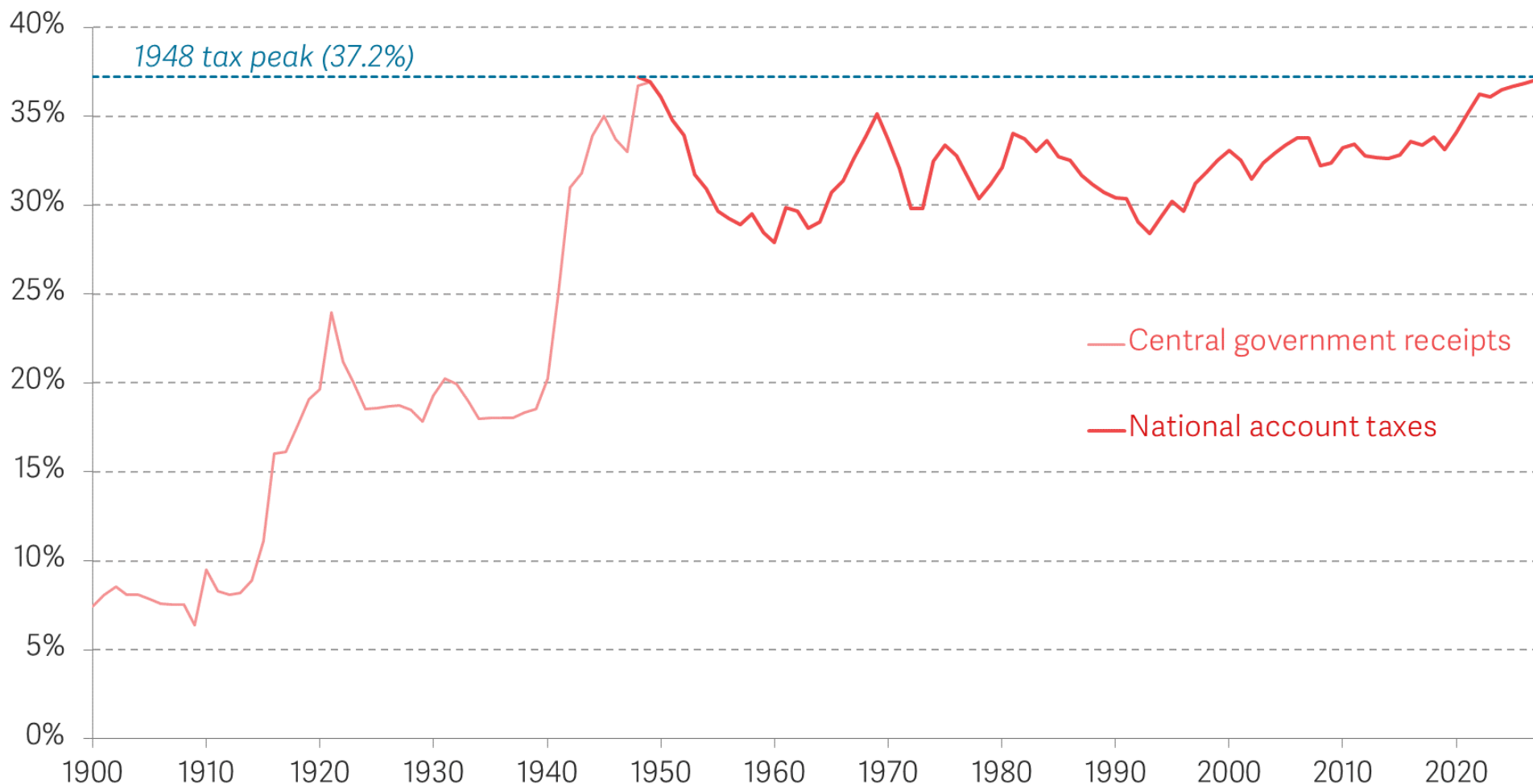
Policy boosts the incomes of adults aged under 45 by £590 but losses for those aged over 65 average £770

Notes: see Back for more?: Putting the 2024 Spring Budget in context, Resolution Foundation, March 2024.

Source: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model; ONS, Living Costs and Food Survey; HMT, policy costings.

This will still be the largest post-war tax-raising Parliament

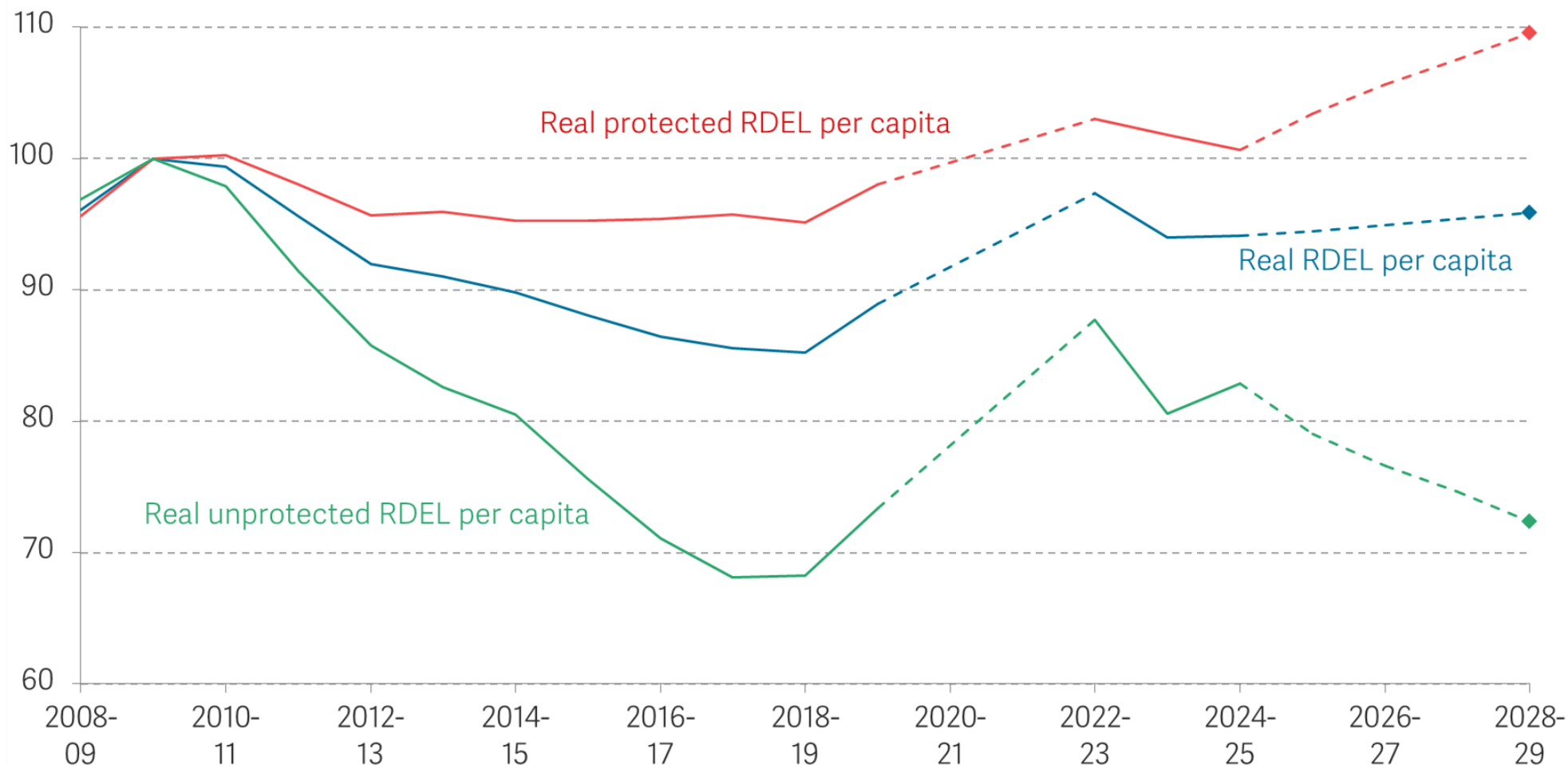
Taxes as a proportion of GDP: UK, 1900 to 2028-29



Tax take is set to rise further to 37.1% in 2028-29 (the highest since 1948), rise since 2019-20 equivalent to £3,900 per household

Tax cuts predicated on (implausible) spending cuts

Indices of real (GDP deflator adjusted) per-capita resource departmental expenditure limits (2009-10=100), all departments, 'unprotected' and 'protected' departments



Real day-to-day spending per person for unprotected departments is set to fall by 13% between 2024-25 and 2028-29

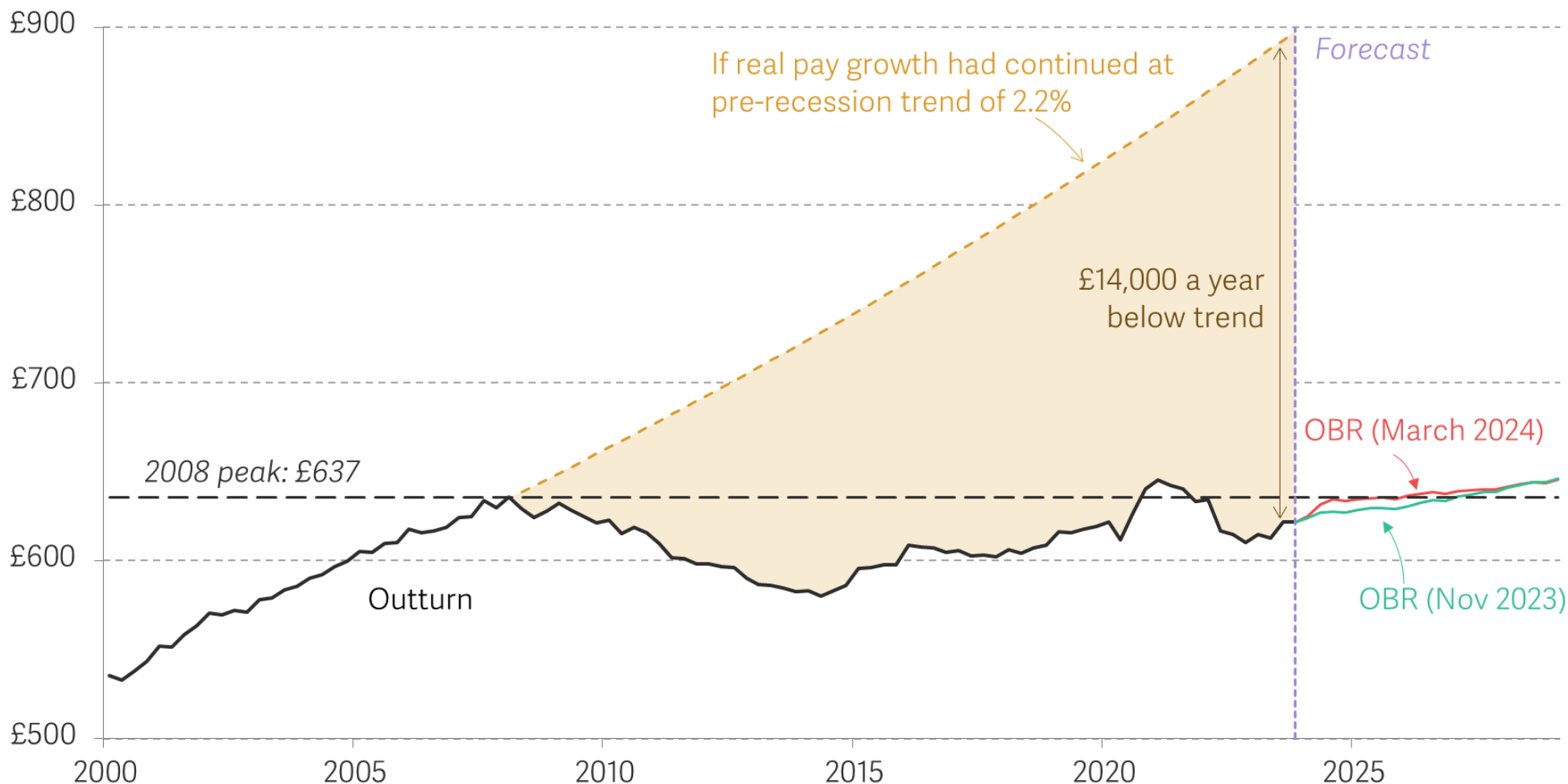
This is £19bn of cuts or three-quarters of cuts between 2010-2015

Notes: Deflated using the OBR GDP deflator to 2024-25 cash terms. Protected budgets include NHS England, education, defence and foreign, commonwealth and development office. Figures include the impact of the Barnett formula. Supplementary PESA tables allocate the reserve largely to protected departments Health and Defence and unprotected department Home Office and Transport will receive higher funding in 2023-24.

Source: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various.

The UK living-standards outlook remains bleak...

Real average weekly earnings, outturn, successive OBR and pre-recession trend forecasts: UK



Real wages are forecast to not return to pre-financial crisis peak until 2026 – nearly two lost decades

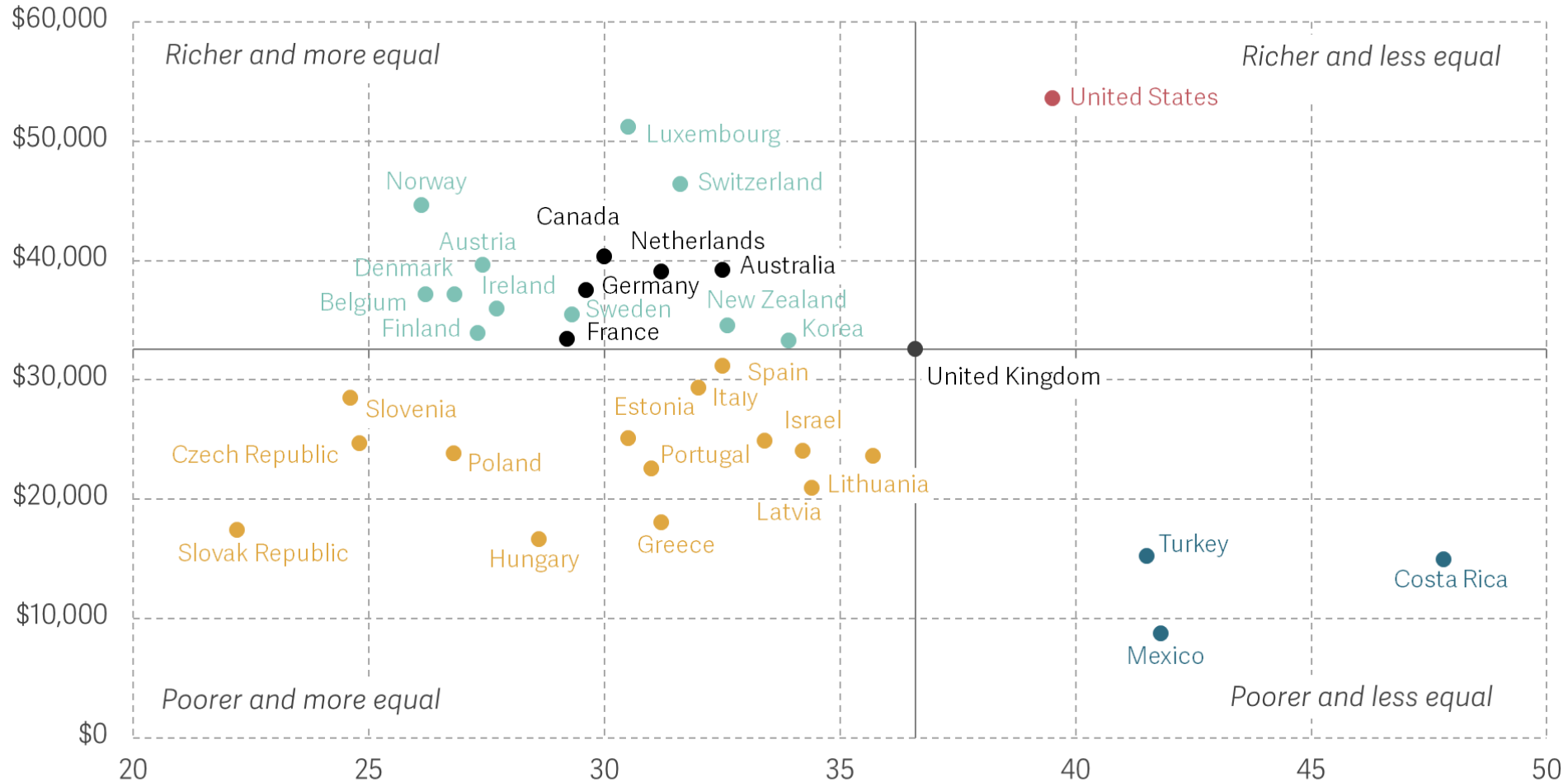
Real household disposable income is set for an unprecedented fall during this Parliament

Note: Prices deflated by CPI. Forecasts are calculated from successive OBR forecasts of average weekly wages and CPI, and indexed to the latest outturn available at the time of the relevant Economic and Fiscal Outlook. OBR's CPI forecasts have been seasonally adjusted.

Source: RF analysis of ONS, UK Economic Accounts; ONS, Labour market statistics; ONS, Consumer price inflation; OBR, Economic and Fiscal Outlook, various.

...meaning we have fallen behind (and become more unequal) than other advanced economies

Gini coefficient and average disposable income per capita: OECD countries, 2019



Notes: Income is equivalised and PPP adjusted.
Source: OECD, Income Inequality Database.

Will this Budget change the Government's fortunes?

- NI cuts double down on Autumn Statement approach
- A new approach: employees biggest beneficiaries & pensioners the biggest losers
- Big picture though hasn't changed: Britain is a country with taxes rising and incomes stagnant
- Difficult for next Government to shift the dial as it will have to deal with:
 - implausible spending cuts
 - further tax rises
 - trying to restart growth

French Chamber of Great Britain, Breakfast Briefing: Spring Budget

Société Générale, 14 March 2024

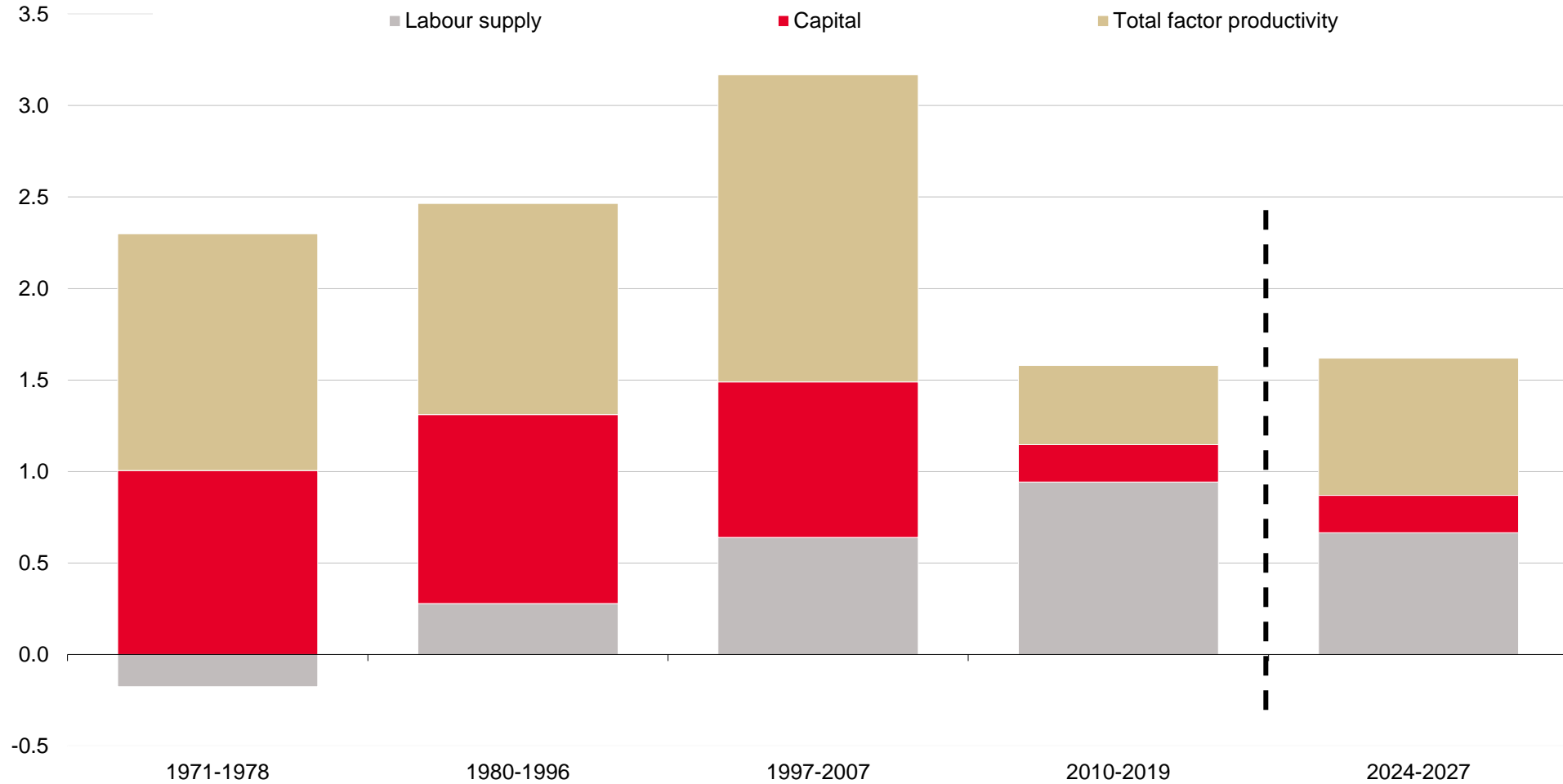
James Smith, Research Director, Resolution Foundation

SPRING BUDGET 2024

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WHY HAS UK GROWTH BEEN SO WEAK SINCE THE GFC?

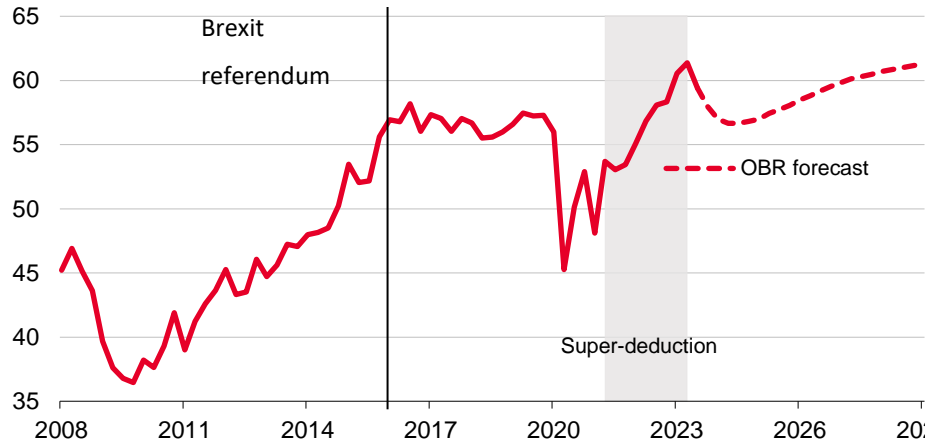
Supply-side drivers of output growth



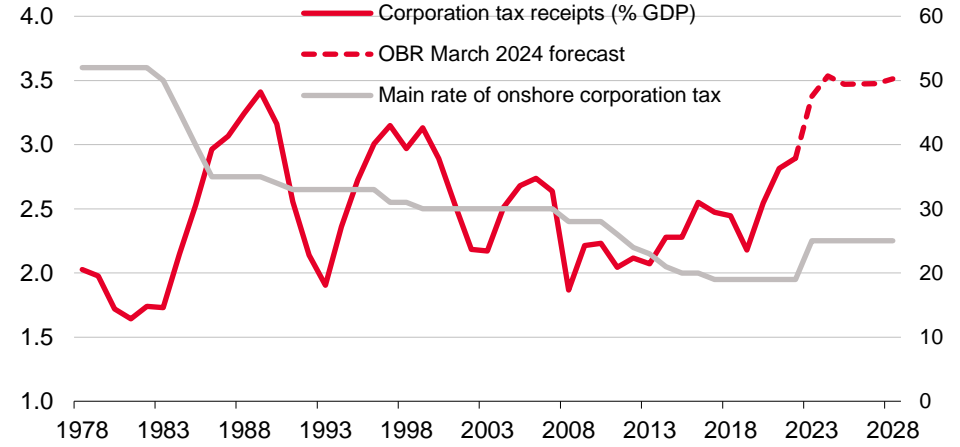
Sources: ONS, OBR, SG Cross Asset Research/Economics

BUSINESS INVESTMENT UNLIKELY TO SIGNIFICANTLY PICK UP

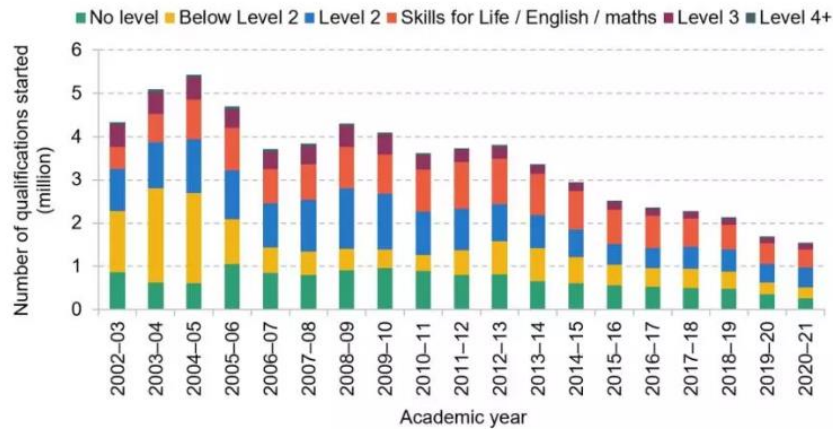
Real business investment (£bn)



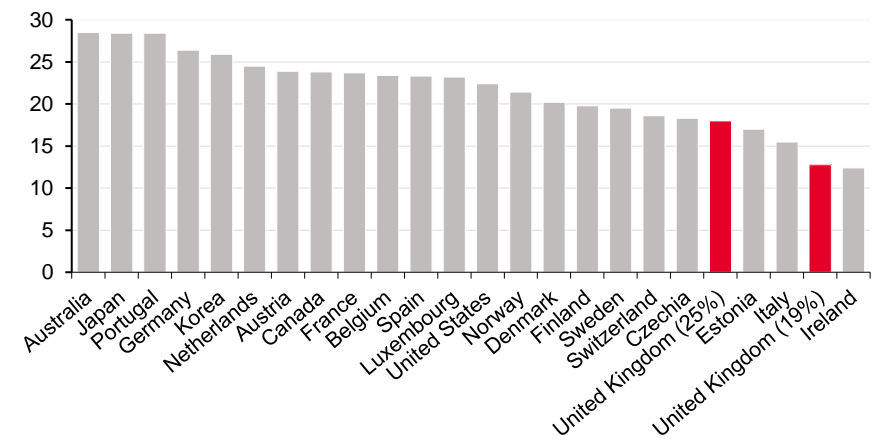
Corporation tax receipts (% of GDP) could reach its highest levels since its introduction



Participation in publicly funded qualifications by adults



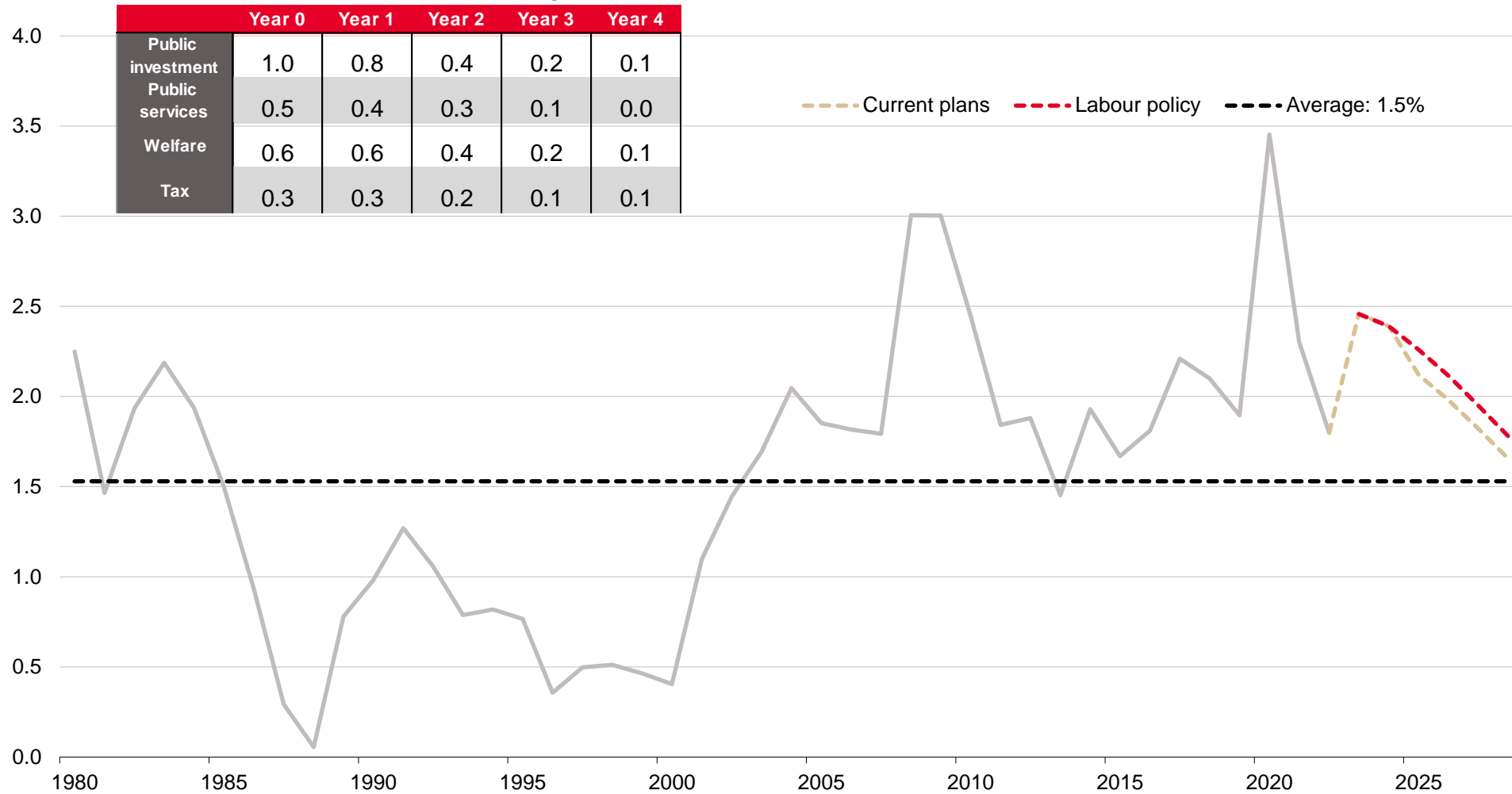
Effective corporation tax rate (%)



Sources: OBR, OECD, IFS, SG Cross Asset Research/Economics. Level 2 corresponds to GCSE or equivalent. Skills for Life encompasses everyday literacy and numeracy courses. Level 3 corresponds to A-level or equivalent qualifications. Level 4+ corresponds to higher-level qualifications such as Higher National Certificates (HNCs) or Higher National Diplomas (HNDs).

PUBLIC INVESTMENT (% OF GDP) STILL FALLING

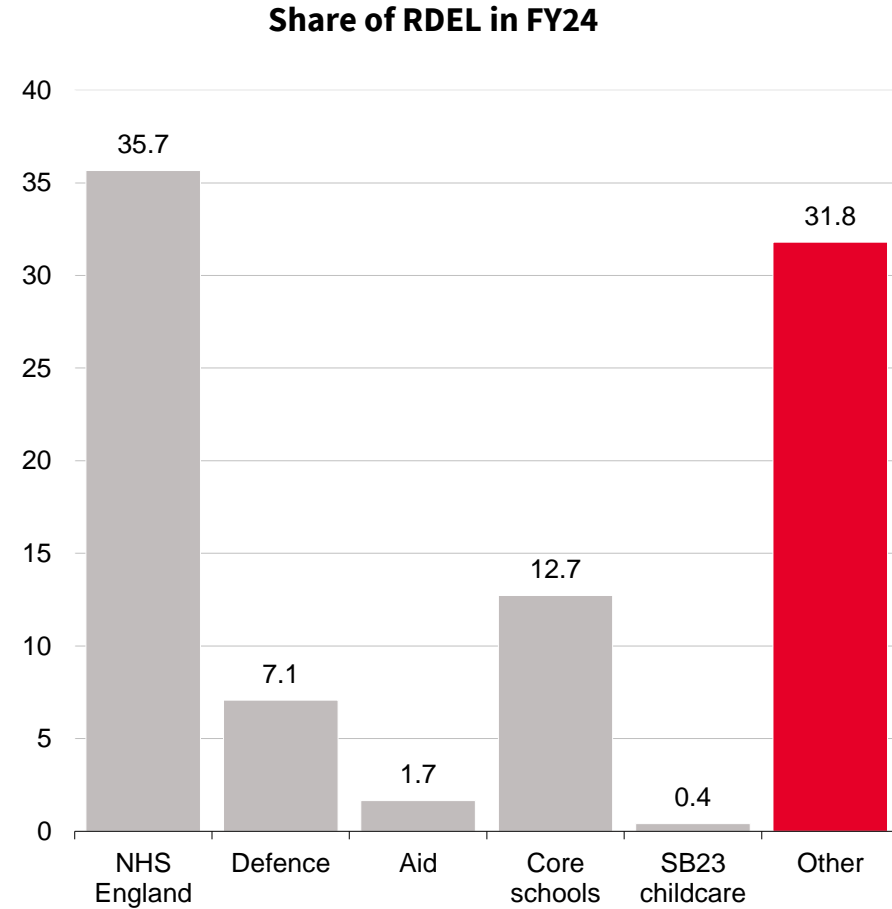
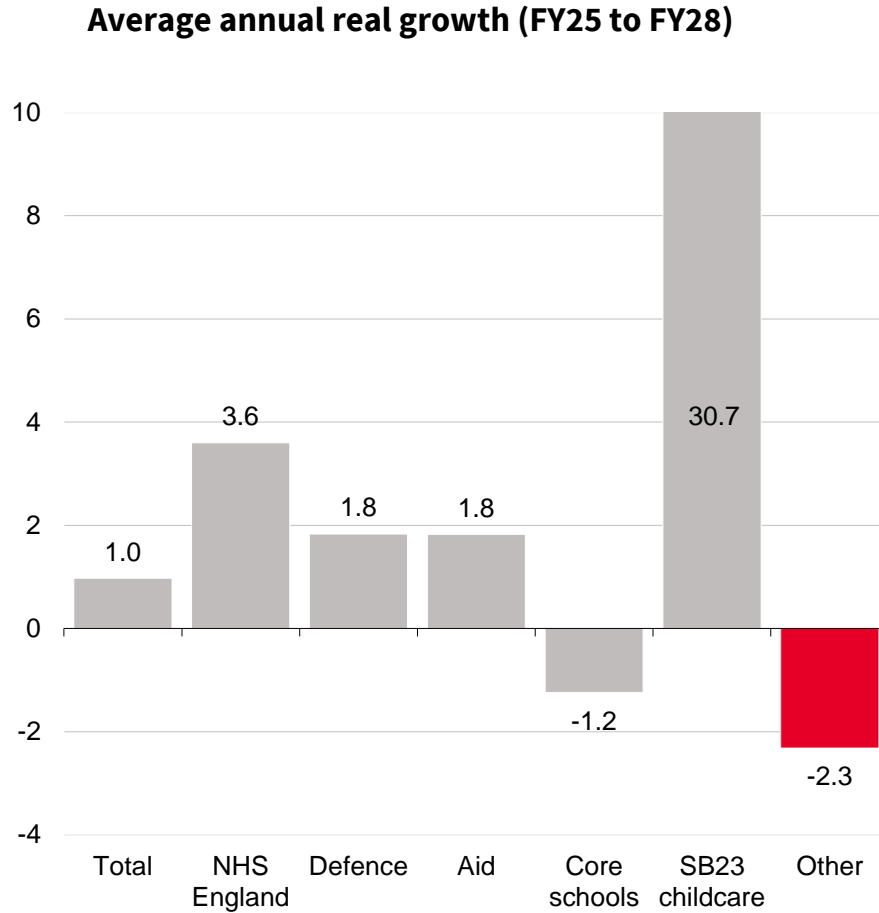
OBR's estimate of a 1pp GDP increase in category on real GDP



Sources: OBR, SG Cross Asset Research/Economics

UNPROTECTED BUDGETS FACING SQUEEZE FROM FY25 ONWARDS

Unprotected departments = Home Office, Ministry of Justice, local governments

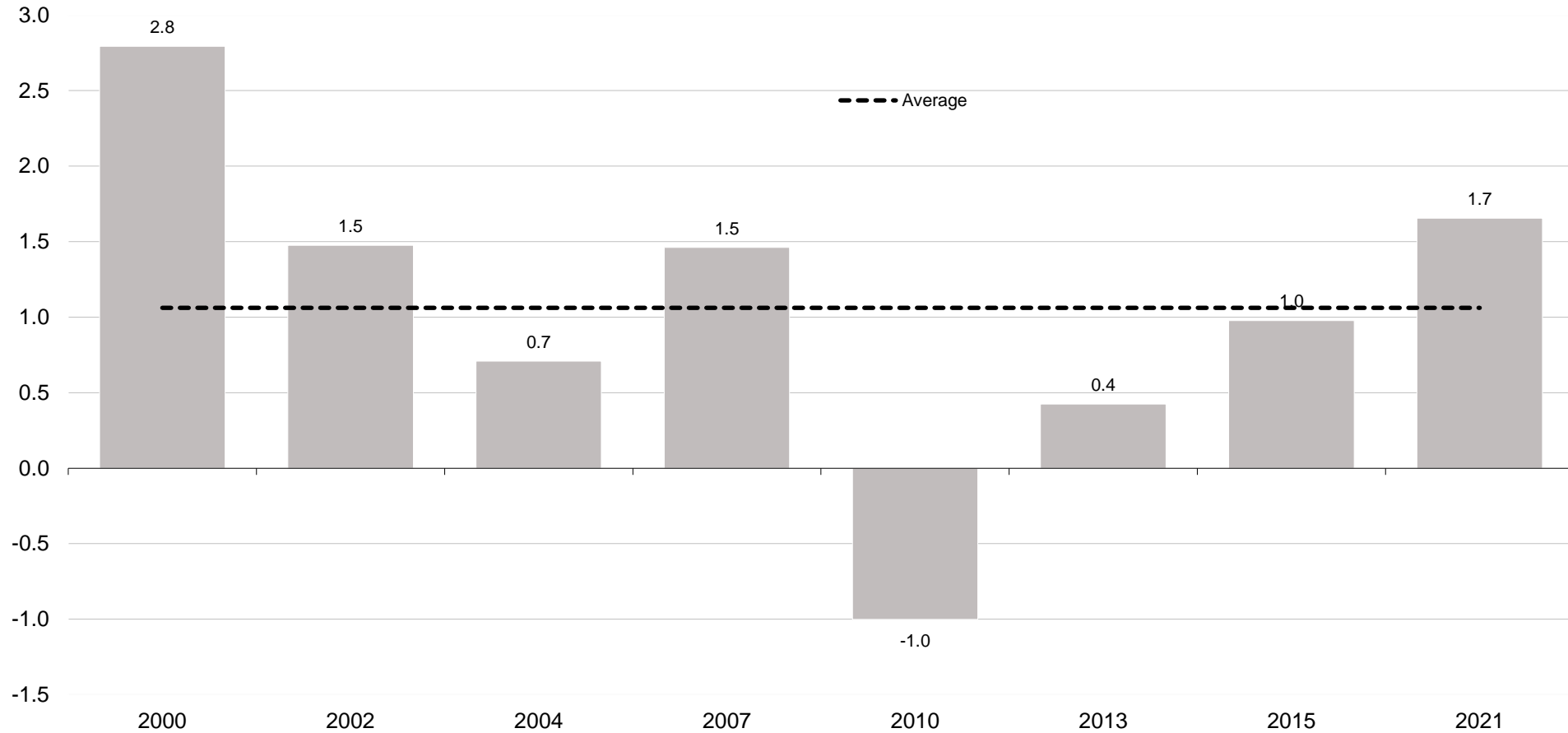


Sources: OBR, SG Cross Asset Research/Economics

DAY-TO-DAY SPENDING NORMALLY TOPPED UP FOLLOWING SPENDING REVIEWS

Change (pp) in real RDEL envelope growth rate at Spending Reviews

The 1.1pp average increase implies extra spending of ~£20bn, which is enough to stop unprotected budgets falling in real terms

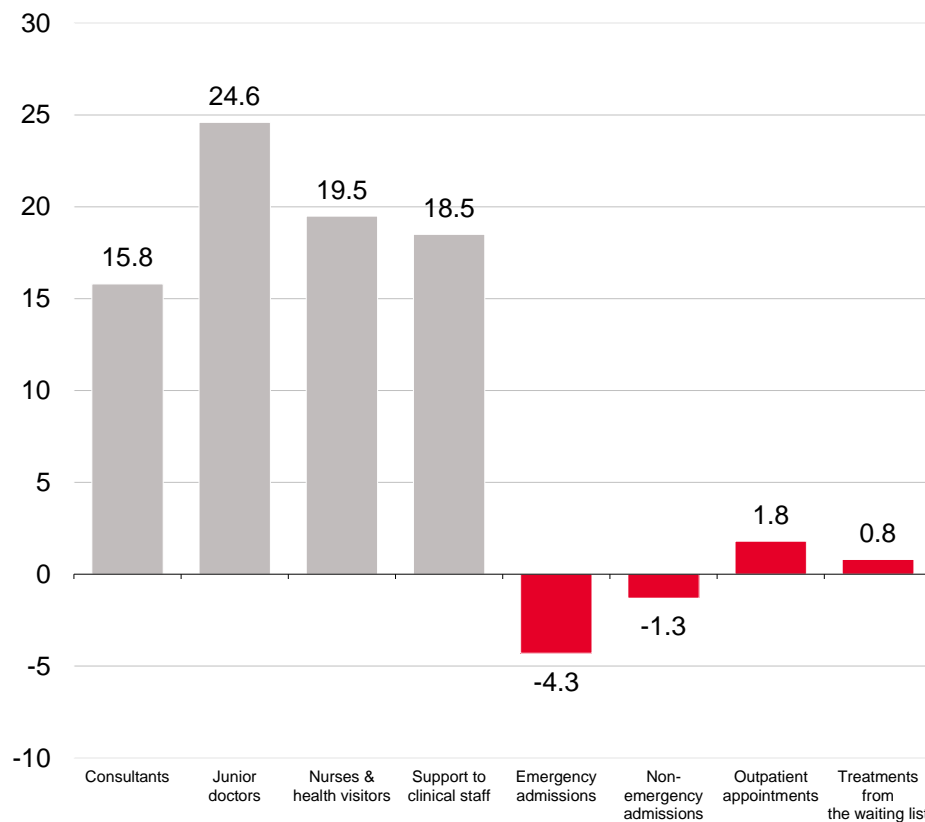


Sources: OBR, SG Cross Asset Research/Economics

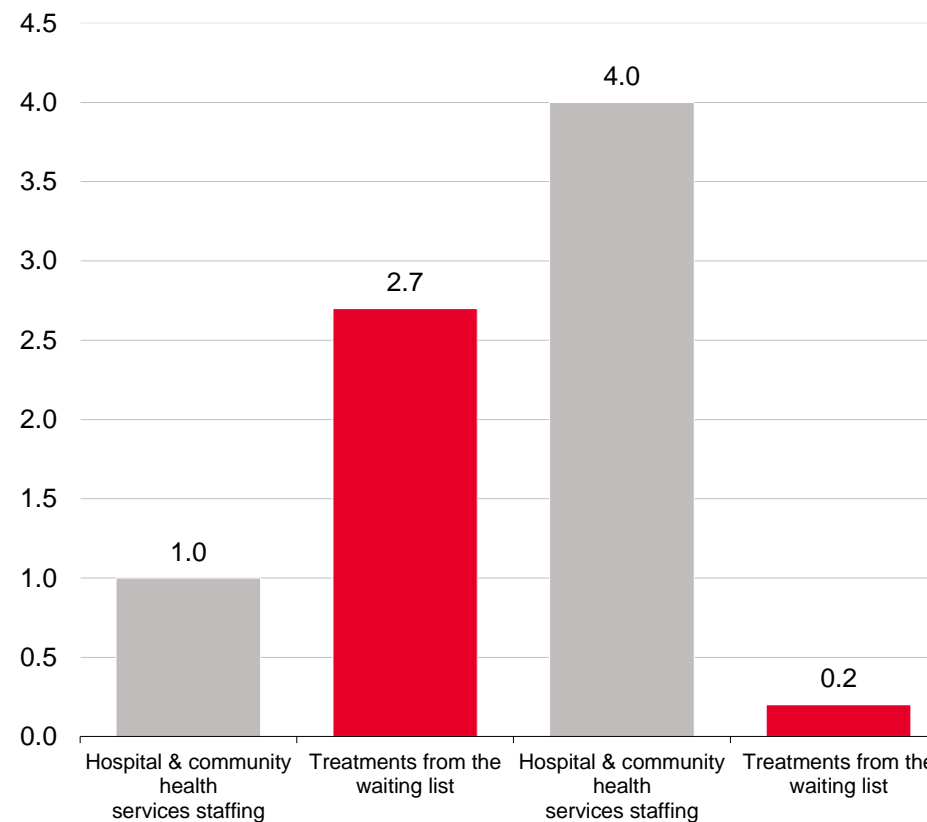
HUNT BELIEVES PUBLIC SECTOR PRODUCTIVITY GAINS CAN OFFSET THE SPENDING SQUEEZE

- Productivity in the public sector still 6% below pre-pandemic levels, according to Hunt
- Returning to those levels could almost entirely offset the squeeze to public sector services from FY25 onwards
- £3.4bn allocated to the NHS to ramp up digitisation and automation

Hospital staffing and treatment volumes in 2023 compared with 2019



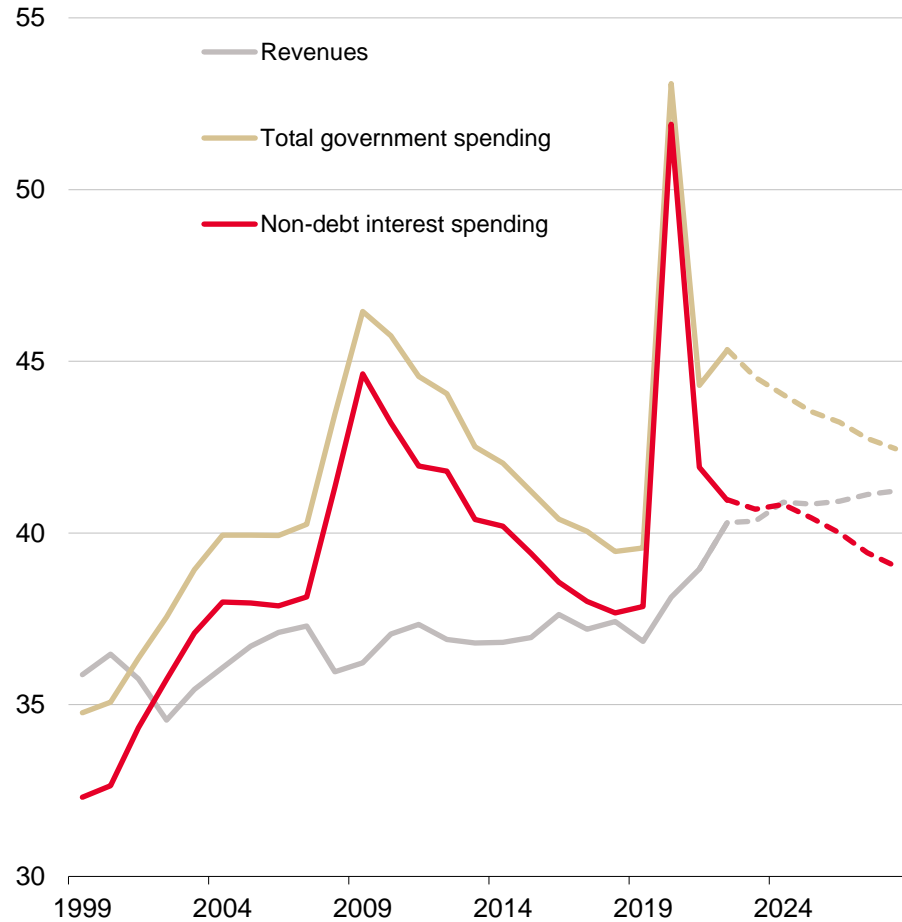
Annual growth in staffing and treatment volumes



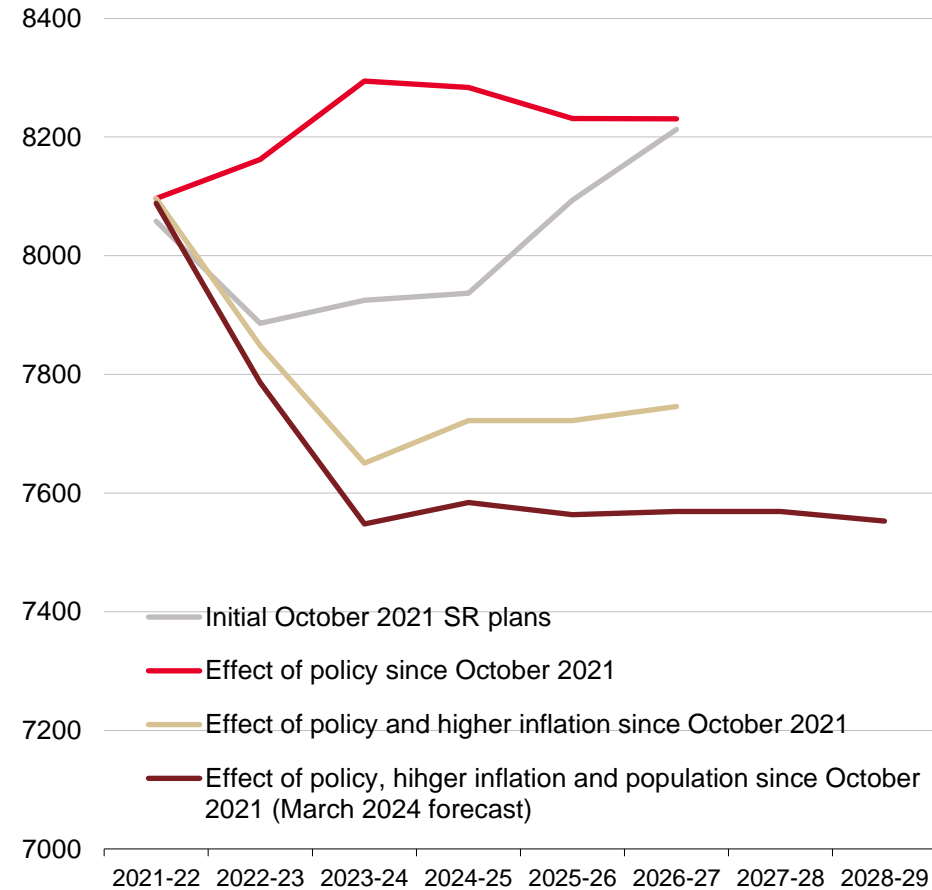
Sources: IFS, SG Cross Asset Research/Economics

WHY ARE PUBLIC SERVICES SO BAD?

Government spending and revenues (% of GDP)



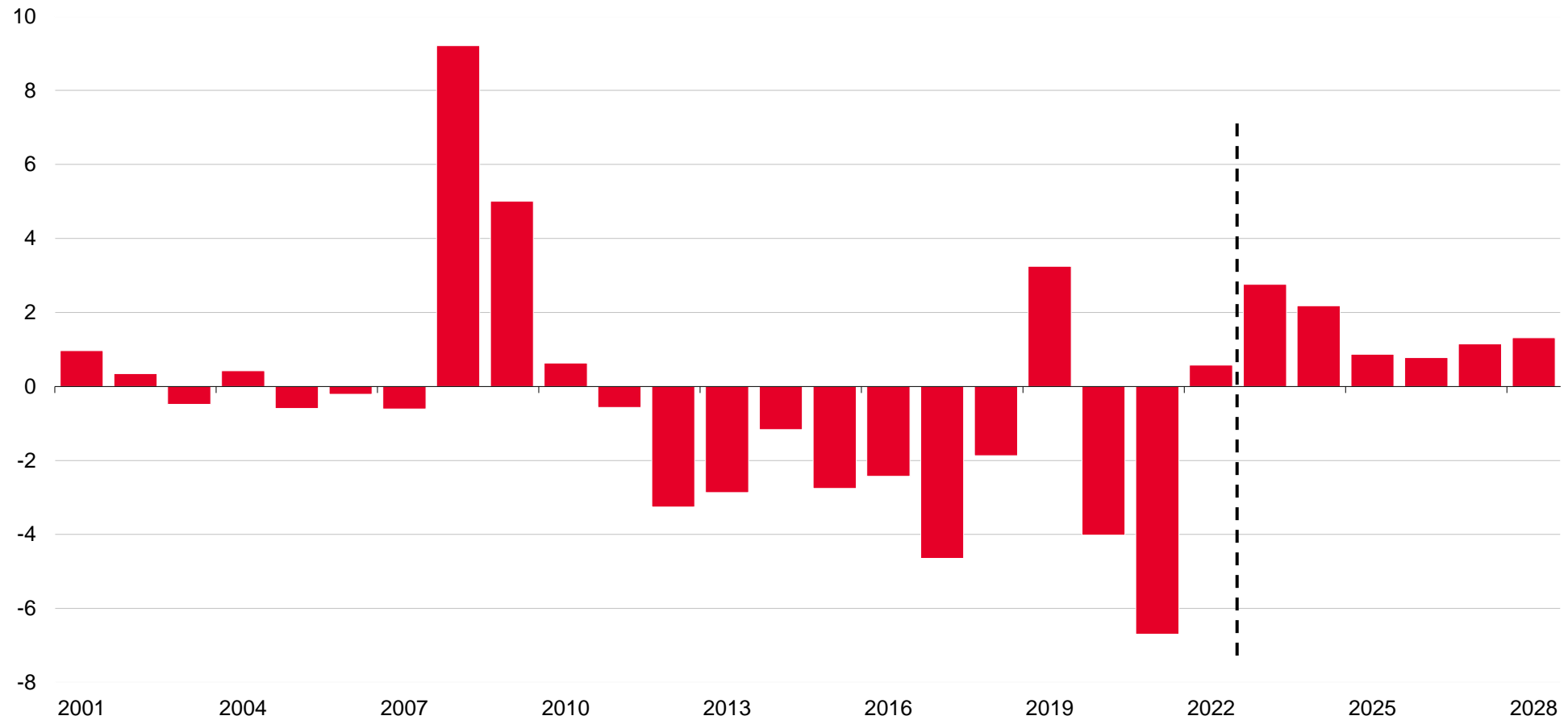
Real departmental spending per person (2023-24 prices)



Sources: OBR, SG Cross Asset Research/Economics

TIGHTER PRIMARY BALANCE IS REQUIRED TO STABILISE DEBT

Debt-stabilising primary balance driven higher by interest rates, sluggish growth and QT

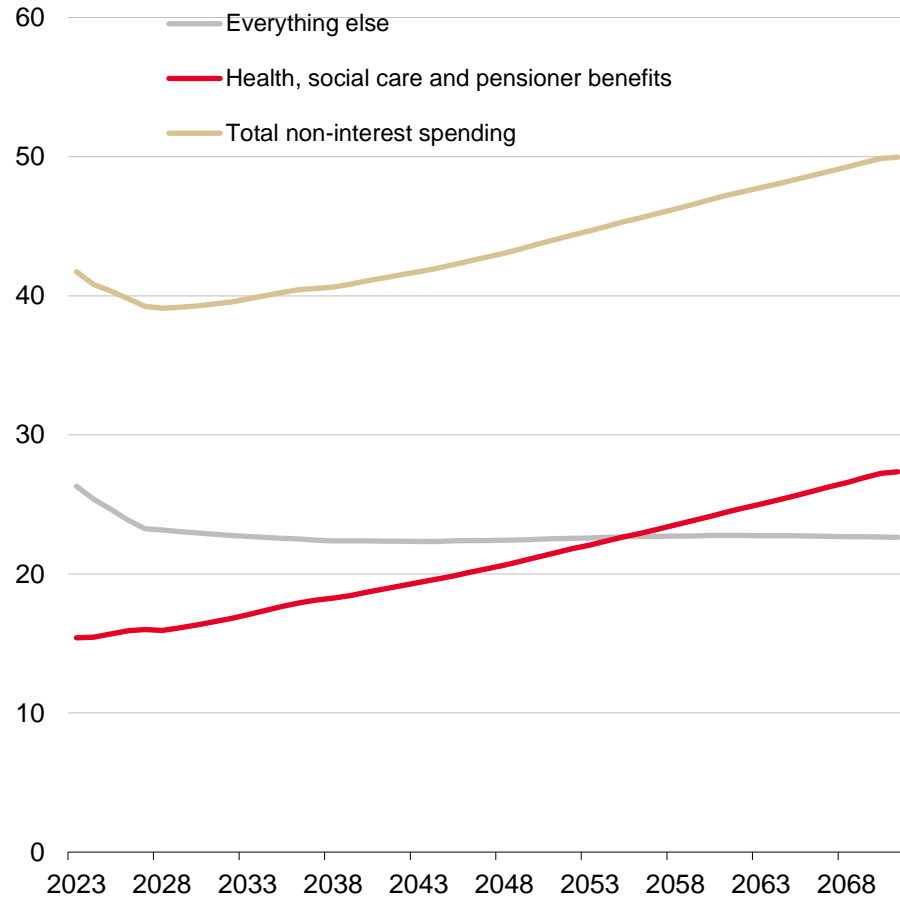


Sources: OBR, SG Cross Asset Research/Economics

CUTTING TAXES IGNORES THE REALITY OF AN AGEING POPULATION

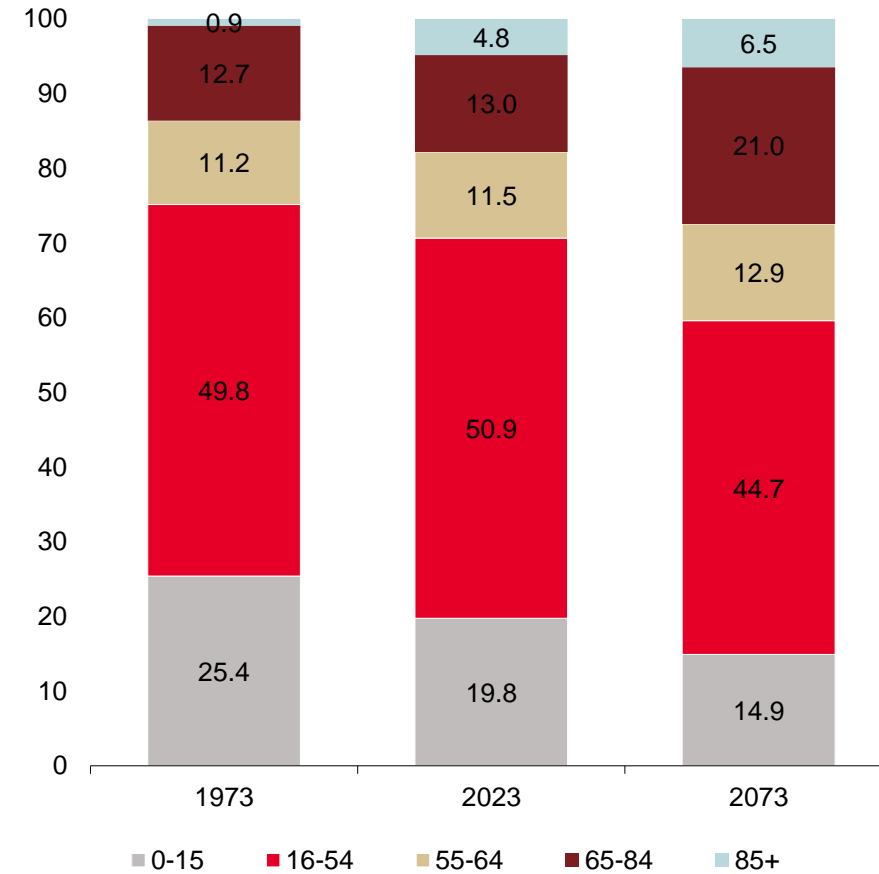
Old-age dependency ratio to increase from 0.3 in 2023 to 0.5 in 2073

OBR's long-term spending projections



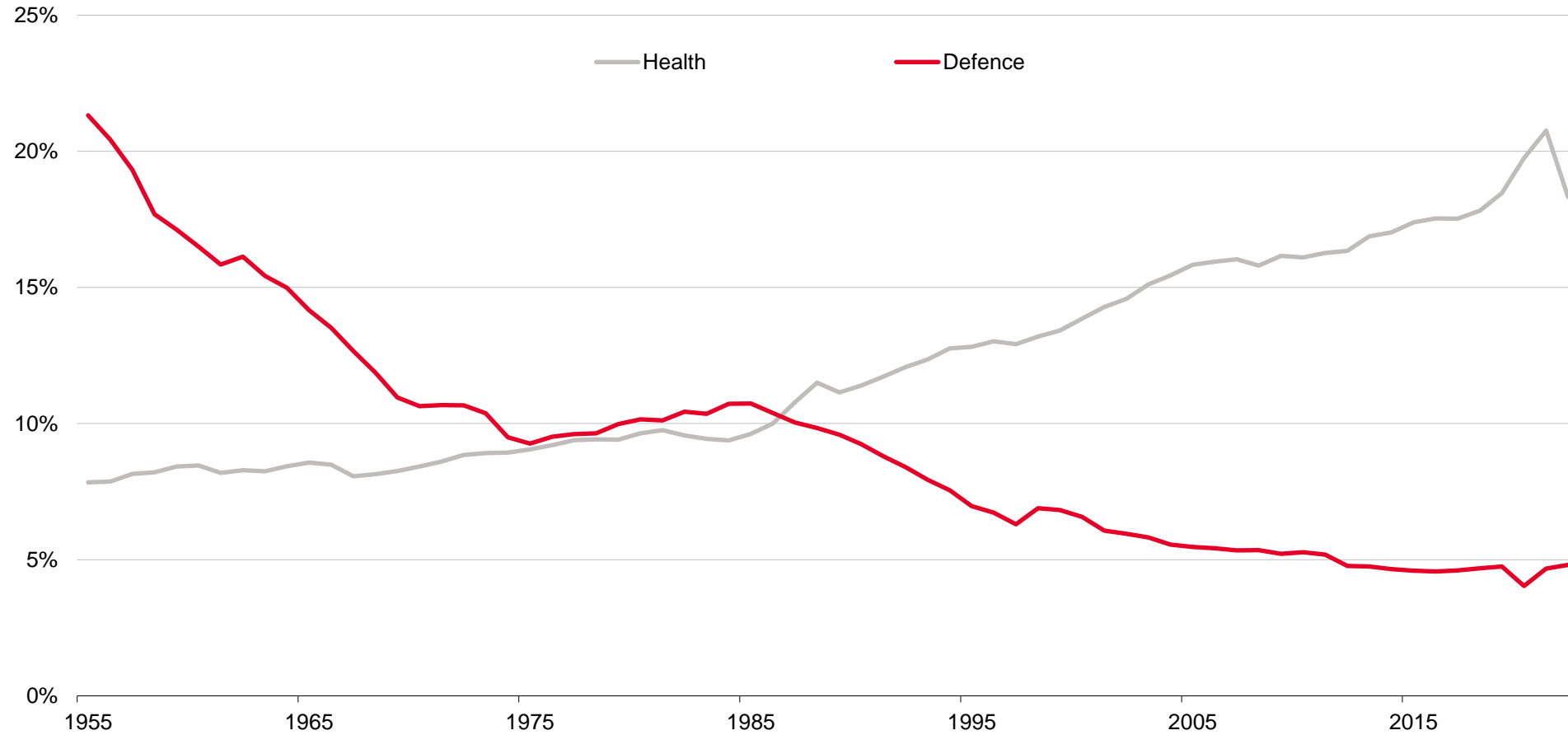
Sources: OBR, SG Cross Asset Research/Economics

Population age structure



PEACE DIVIDEND HAS SOFTENED THE EFFECT OF AN AGEING POPULATION SO FAR

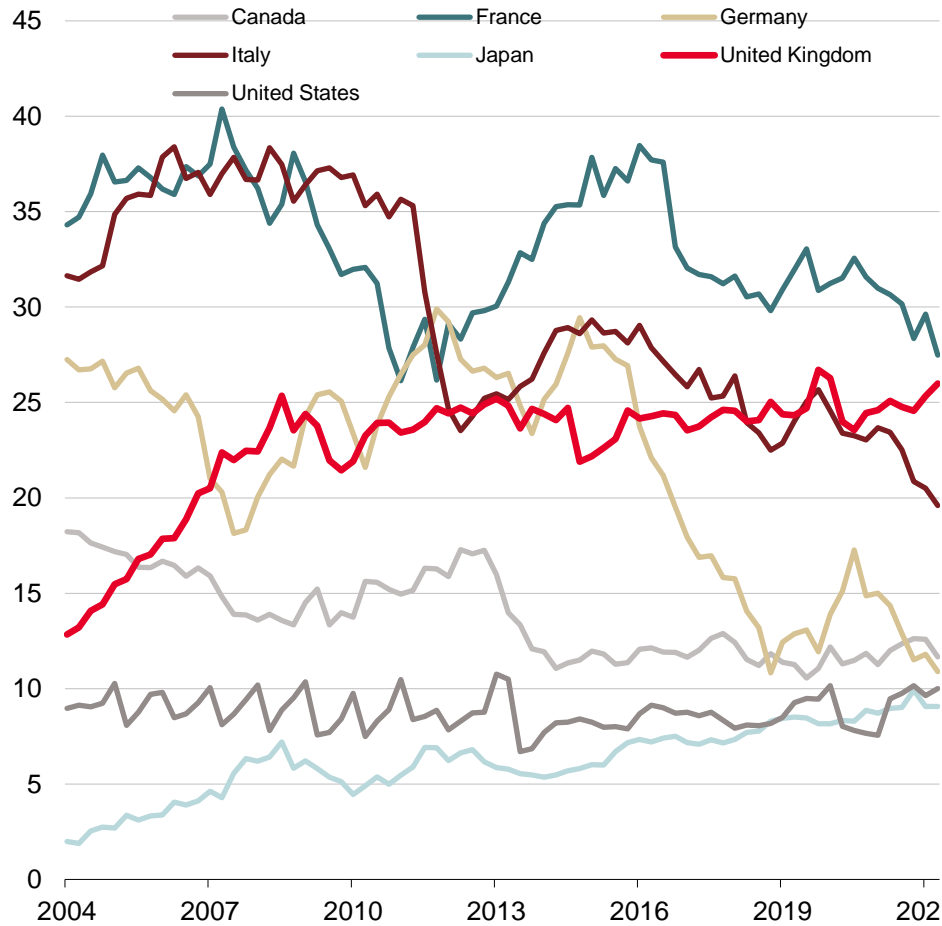
Health and defence spending (% total government spending)



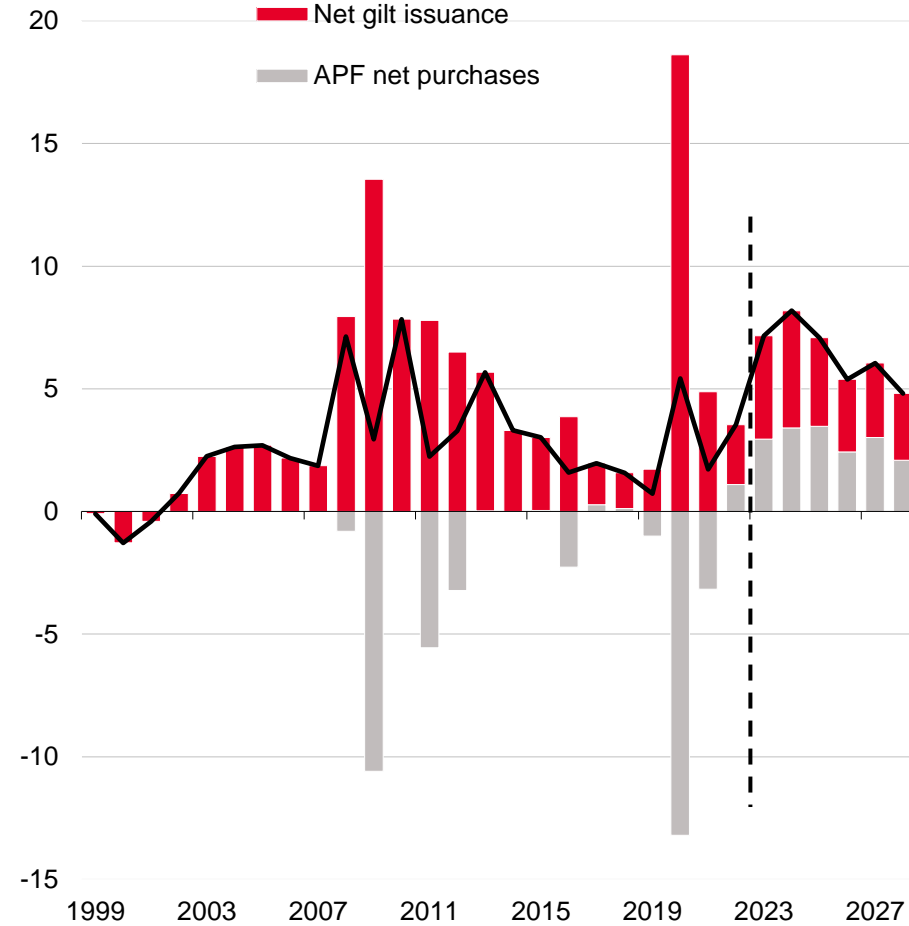
Sources: IFS, SG Cross Asset Research/Economics

MARKET DEMAND FOR GILTS TO BE TESTED

Foreign holdings of sovereign debt (excluding foreign official sector)



UK gilt issuance and change in private sector holdings of gilts



Sources: OBR, IMF, SG Cross Asset Research/Economics

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Questions & Answers Session

Thank you!

Upcoming Events @ Chamber

Franco-British Reception at Parliament

Monday 25 March 2024 - 6:30 pm to 10:00 pm



Book a ticket, scan here



Open to all members.

Limited to 2 tickets for Patron/Corporate members and to 1 ticket for Active members.

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