Institute and Faculty of Actuaries

IFoA Briefing: Autumn Statement 2022

This briefing summarises the key announcements, relevant to the work of actuaries, as outlined in the Autumn Statement on 17 November 2022. Ahead of the statement, the Institute and Faculty of Actuaries (IFoA) called on the Chancellor, Rt Hon Jeremy Hunt MP, to consider the long-term financial picture while addressing immediate economic concerns. Matt Saker, IFoA President, said:

"It is understandable that the Chancellor might be tempted to address the current economic challenges by delivering short-term fixes. The temptation for quick fixes carries the risk of short-term wins at the expense of long-term pain. The future financial stability of the economy requires the government to build resilience in the economy through long-term thinking. This includes continued and sustainable infrastructure plans; investment in the 'road to net zero'; encouraging and embedding the fledgling savings habits of the auto-enrolled generation; and crucially, not postponing the timebomb challenge of social care. It is essential that the Chancellor's package of financial measures embeds resilience and has intergenerational fairness at its heart."

About the IFoA

The IFoA is a royal chartered, not-for-profit, professional body. We represent and regulate over 30,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

Overview

The Chancellor delivered on expectations that the Autumn Statement 2022 would be borne of tough decisions amid a turbulent economic climate. Through a "balanced" range of tax rises and public spending cuts, Hunt confirmed the statement would bring a consolidation of £55bn – filling the hole in the UK's public finances following the controversial September 2022 "mini-budget". The measures, Hunt said, would result in inflation and interest rates lowering markedly. Recognising an immediately bleak economic outlook – "as growth slows and unemployment rises" – the Chancellor stated the Government would use fiscal policy to support the economy. Concluding on a more positive note, Hunt affirmed the Government's determination to achieve greater innovation and economic growth.

From an actuarial perspective, there were announcements covering a large range of interest areas. These were:

- A Government response to the consultation on final **Solvency II** reforms published.
- A review of retained EU law in key growth industries, including **financial services**.
- Reaffirmed commitment to **COP26** pledges, including 68% reduction in emissions by 2030.
- £600bn of capital investment to support the building of **infrastructure** such as roads, train lines and communities over the next 5 years.
- Confirmation of a second round of the **Levelling Up** Fund will the allocation of £1.7bn to priority local **infrastructure** projects.
- £2.8bn funding for **Adult Social Care** in 2023-24 and £4.7bn in 2024/25, This includes £1bn to directly support discharges from the hospital to the community to support the NHS through the Better Care Fund.
- £1.3 billion in 2023-24 and £1.9 billion in 2024-25 will be distributed to local authorities through the Social Care Grant for **adult and children's social care**.

- Delay of the implementation of the **Dilnot Reforms to adult social care**, with its funding being allocated to support local councils.

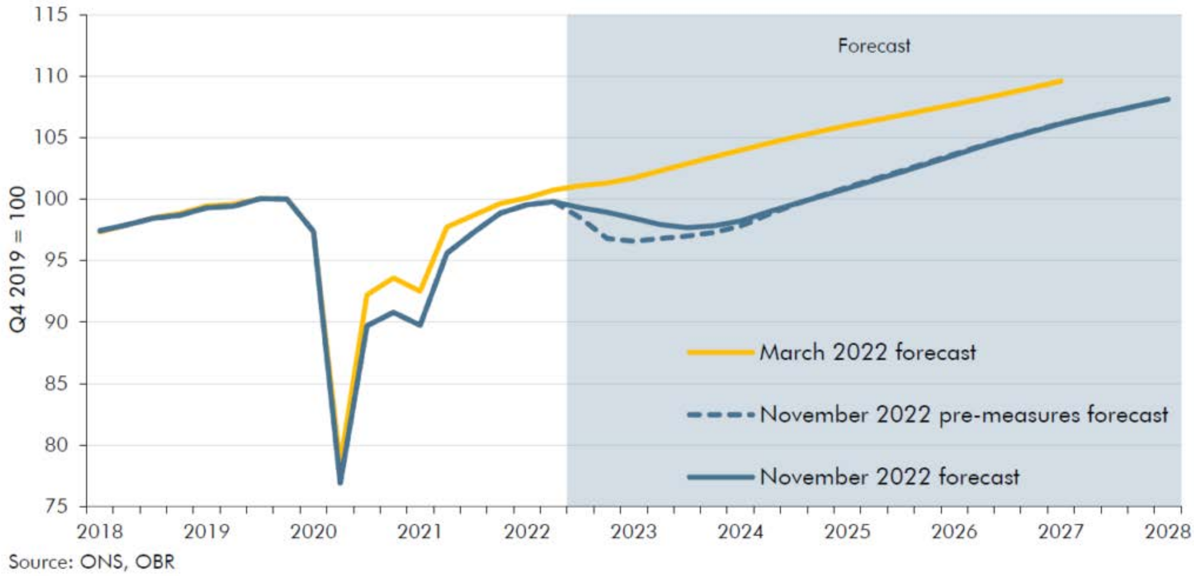
Tax measures
The following announcements apply to England, Wales and Northern Ireland *only*:

- A reduction on the threshold at which the 45p rate of tax becomes payable from £150,000 to £125,140. Those earning £150,000 or more will pay just over £1200 more a year.
- Maintenance at current rates of the income tax personal allowance, higher rate threshold, main national insurance thresholds and the inheritance tax thresholds until April 2028.
- The dividend allowance will be cut from £2,000 to £1,000 in 2023 and then to £500 from April 2024.
- The Annual Exempt Amount for capital gains tax will be cut from £12,300 to £6,000 next year and then to £3,000 from April 2024.

Economy and Public Finances
Fiscal statements require the Chancellor to outline accompanying forecasts made by the Office for Budget Responsibility (OBR) regarding outcomes for the economy and public finances. Full forecasts published on 17 November can be found here.

With regards to growth, the OBR has predicted rates of:

- 2022: GDP growth of 4.2% compared with 3.8% growth predicted in March 2022
- 2023: GDP falls by 1.4% compared with 1.8% growth predicted in March 2022
- 2024: GDP rises by 1.3% compared with 2.1% growth predicted in March 2022
- 2025: GDP rises by 2.6% compared with 1.8% growth predicted in March 2022
- 2026: GDP rises by 2.7% compared with 1.7% growth predicted in March 2022



Furthermore:

- CPI inflation is set to peak at a 40-year high of 11% in the current quarter. It will drop "sharply" over the course of next year and is dragged below zero in the middle of the decade. It is expected to return to the Bank of England's 2% target in 2027.

- Rising prices erode real wages and reduce living standards by 7% in total over the two financial years 2023-24 (wiping out the previous eight years' growth), despite over £100 billion of additional government support.
- The squeeze on real incomes, rise in interest rates, and fall in house prices all weigh on consumption and investment, tipping the economy into a recession lasting just over a year from the third quarter of 2022, with a peak-to-trough fall in GDP of 2%.
- Unemployment rises by 505,000 from 3.5% to peak at 4.9% in the third quarter of 2024.

Main Headlines

The main measures outlined in the statement include:

- From January 2023 until March 2028 the Government will increase the Energy Profits Levy from 25% to 35%.
- The Government will maintain international development spending at 0.5% of the GDP.
- A delay of the implementation of the Dilnot Report (social care costs cap).
- An extra £3.3bn in both 2023 and in 2024 for the National Health Service.
- An extra £2.3bn in both 2023 and in 2024 for schools.
- The Government will proceed with the plan for a new nuclear plant in Sizewell.
- A new target of reducing energy consumption from buildings and industry by 15% by 2030.
- From April 2023, the Energy Price Guarantee will continue for a further 12 months at a higher level of £3000 per year for the average household. Additional financial support will be then available for the most vulnerable: £900 to households on means-tested benefits; £300 to pensioner households; and £150 for individuals on disability benefit.
- The Government will cap the increase in social rents at a maximum of 7% in 2023-24.
- From April 2023, the national living will increase by 9.7% to £10.42 which represents an annual pay rise worth over £1600 to a full-time worker.
- A retention of the pensions triple lock and state pension increase in line with inflation, representing a rise worth £870.

Financial Services

- The IFoA has welcomed HM Treasury's (HMT's) consultation response on the reform of Solvency II in the UK. We believe it is important in the public interest that the government's desire to free up investment under a UK solvency regime is balanced with maintaining appropriate policyholder protection. This includes sensible reforms to the Matching Adjustment, Risk Margin and the Fundamental Spread Methodology.
- Following recommendations from the Taskforce for Innovation, Growth and Regulatory Reform and the Productive Finance Working Group, the Government will consult before the end of the year on further changes to the regulatory charge cap for defined contribution auto-enrolment pension schemes to enable pension savers to benefit from better growth in their long-term investments.
- The consultation will specifically consider amendments to the scope of the cap to better accommodate well-designed performance fees and enable investments into the UK's most productive assets, while continuing to protect savers.

Pensions

- A Review of the State Pension age will be published in early 2023.
- State Pension and Pension Credit will be increased in line with inflation at 10.1% from April 2023, protecting the pensions triple lock. State pensions will increase by £870 next year.

- As part of the Government's support on the cost-of-living, pension households will also receive an additional £300 cost-of-living payment.
- The standard minimum income guarantee in Pension Credit will also increase in line with inflation from April 2023.
- Plans to create a new housing element of Pension Credit to replace pensioner Housing Benefit will now take effect in 2028-29. Eligible pensions will continue to receive Housing Benefit.
- The Higher Rate Threshold (HRT) for income tax for savings and Additional Rate Threshold (ART) will apply UK-wide, which will be legislated for in the Finance Bill 2022.

Infrastructure

- Total departmental capital spending in 2024-25 will be maintained in cash terms until 2027-28, delivering £600bn of capital investment to support the building of infrastructure such as roads, train lines and communities over the next 5 years.
- Ahead of the Autumn Statement the IFoA called on the Government to build resilience in the economy through long-term thinking, including sustainable infrastructure plans.
- We therefore welcome the Chancellor's announcement that the Government's budgets for capital projects will be maintained for the next two years – including confirmed funding for projects like Northern Powerhouse Rail, HS2 to Manchester and round 2 of Levelling Up - although fixing these in cash terms thereafter is likely to represent a cut in real terms.
- We also welcome the establishment of the UK Infrastructure Bank on a statutory footing.

Health and Care

- Funding for the NHS and social care will be increased by up to £8 billion in 2024-25.
- The NHS will see additional funding of £3.3bn in 2023-24 and in 2024-25 to improve the performance of the NHS. NHS will publish a workforce plan for the next five, 10 and 15 years.
- The cap on the amount people in England will pay for social care will be delayed by two years. This was due to come in in October 2023. Local authorities will receive an extra £1bn next year and £1,7bn in 2024-25 for adult social care. Combined with savings from the delayed cap and more council tax flexibility, this means an increase in funding available for the social care sector of up to £2.8bn next year and 4.7bn the year after. The Chancellor says this will help fund 200,000 more care packages and free up to 13,500 hospital beds.

Sustainability

- The Chancellor reaffirmed commitment to the Glasgow Pact agreed at COP26, including a 68% reduction in UK emissions by 2030.
- He announced a new national target to reduce energy consumption by buildings and industry by 5% by 2030, saving £28bn from the national energy bill or £450 off the average household bill. £6bn of additional energy efficiency funding would be made available from 2025. BEIS will publish energy independence plans and launch a new Energy Efficiency Taskforce.
- The windfall tax on oil and gas producers will increase from 25% to 35% and is extended to 2028. Electricity generators will see a windfall tax of 45% (higher than the 40% originally trailed). The Chancellor said windfall taxes should be temporary, not deter investment and recognise the "cyclical nature of energy businesses".
- Government will proceed with Sizewell C nuclear power plant.

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Next Steps / Further Information

The Policy and Public Affairs Team will be continue to update members on a regular basis on relevant developments on the announced economic measures within the Autumn Statement 2022.

Treasury publications on the Autumn Statement 2022 are available via the HM Treasury Website. For more information on the IFoA's policy work, or should you wish to discuss any of the points raised in the briefing, please contact Henry Thompson, Head of Public Affairs, via Henry.Thompson@actuaries.org.uk