Institute and Faculty of Actuaries

IFoA Briefing – The Autumn Statement 2023

This briefing summarises the key announcements, relevant to the work of actuaries, as outlined in the Autumn Statement on 22 November 2023.

Ahead of the statement, the Institute and Faculty of Actuaries (IFoA) called on the Chancellor, Rt Hon Jeremy Hunt MP, to focus on long-term thinking with a particular focus on pensions following the announcement of the Mansion House Reforms earlier this year.

Overview

In what is likely to be the penultimate financial statement from this Government before the next general election, the Chancellor signalled a reprioritisation in the Government's economic approach from one focused on fiscal responsibility to one of economic growth.

To that end, announcements included over 110 pro-enterprise reforms and cuts to taxation on businesses and workers alike. Through various new proposals, there were also measures to incentivise people back into work and away from entitlement dependency – thereby increasing economic participation and shrinking social security spending. A number of pensions measures, including potentially quite radical proposals to support growth, were front and centre of the statement. Moreover, there was a plethora of funding and political commitment to back scientific and technological innovation, to expand skills – particularly in mathematics – and for expansions in electric vehicle infrastructure all in order to support growth in the future economy.

From an actuarial perspective, the most significant announcements were:

- The Government's will introduce the multiple default consolidator model for defined contribution (DC) schemes, to enable a small number of authorised schemes to act as a consolidator for eligible pension pots under £1,000.
- The Government has confirmed that it will be pushing ahead with plans to explore how the Pension Protection Fund (PPF) could act as a DB consolidator.
- The Government will consult on whether changes to rules around when defined benefit (DB) pension scheme surpluses can be repaid could incentivise investment in UK growth.
- The Government has announced plans for a call for evidence on a 'pot for life' model, a lifetime provider system to simplify the pensions market by allowing individuals to move towards having one pension pot for life.
- The Government will introduce a March 2025 deadline for the accelerated consolidation of Local Government Pension Scheme (LGPS) (England and Wales) assets, as well as new private equity investment requirements.
- The Government will move toward DC pension fund consolidation, expecting to see a market in which most savers belong to schemes of £30 billion or larger by 2030.
- The Government will introduce secondary legislation to give effect to Solvency II reforms.
- The Government will consult on the design of a new framework for encouraging the establishment and growth of captive insurance companies in the UK. The consultation will launch in Spring 2024.
- The Government will publish a response to the consultation on the Digital Securities Sandbox (DSS), which will facilitate the adoption of digital assets across financial markets.

Main Headlines

The main measures outlined in the statement include:

- The main rate of National Insurance will be cut by two per cent, with the change taking effect from January 2024.
- The Government remains committed to the pension triple lock. It will rise by 8.5 per cent from April 2024.
- Universal Credit and other benefits will increase from April 2024 by 6.7%, in line with September 2023's inflation figure.
- Two new investment zones will be established. One will be in West Yorkshire with another in Wrexham and Flintshire.
- The Government will commit £7million over the next three years to projects to help tackle anti-Semitism in schools.
- All alcohol duty will be frozen until 1 August 2024. That means no increase in duty on beer, cider, wine or spirits.

- From 2024, the Government will reform to allow local authorities to recover the full costs of major business planning applications in return for being required to meet guaranteed faster timelines.
- The Government will consult on the introduction of a legal right for workers to have a single pension pot “for life”. The proposal will require a new employer to pay pension contributions into an employee’s existing pension pot if they choose.
- There will be new simplified R&D tax relief, combining the existing R&D Expenditure Credit and SME schemes.
- £4.5bn of support will made available over the 5 years to 2030 to attract investment into strategic manufacturing sectors
- A 75% business rates discount for the hospitality and leisure sectors will be extended by another year.

Financial Services

- The Government will be introducing secondary legislation to give effect to Solvency II reforms
- The Treasury will “explore options” for a potential NatWest share offer in the next 12 months “subject to supportive market conditions” and “value for money”.
- The Government will lay a statutory instrument that will replace the retained EU law Securitisation Regulation with a new framework tailored to the UK. This takes forward certain reforms identified in the government’s 2021 Review of the Securitisation Regulation.
- The Government has published a draft statutory instrument setting out how it will replace the retained EU law short selling regulation, including aspects on sovereign debt, with a new framework tailored to the UK.
- The Government will lay a statutory instrument that will replace retained EU law in relation to Data Reporting Services Providers (DRSPs) with a new framework tailored to the UK. This delivers on the Edinburgh Reforms commitment to have a regulatory framework for a consolidated tape in place by 2024.
- The Government and the FCA are engaging with industry stakeholders to take forward the recommendations of the Investment Research Review. This will inform formal consultations in 2024.
- The Government has published a draft statutory instrument setting out how it will replace the retained EU law Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation with a new framework tailored to the UK.
- The Government will repeal prescriptive EU-derived payments authentication rules and will also legislate to unlock the full potential of Open Banking-enabled payments. Next year, the Government will publish a National Payments Vision.
- The Government will publish a response to the consultation on the Digital Securities Sandbox (DSS), which will facilitate the adoption of digital assets across financial markets. The government will also lay an SI to implement the DSS, delivering on the Edinburgh Reform announcement to implement a Financial Market Infrastructure Sandbox in 2023.
- The Government will consult on the design of a new framework for encouraging the establishment and growth of captive insurance companies in the UK. The consultation will launch in Spring 2024.
- The Government has written to the Financial Reporting Council (FRC) to update its remit, emphasising the role the FRC should play in promoting growth and competitiveness.1 The government welcomes the Capital Markets Industry Taskforce work to reset culture through an “investor covenant” and the commitment from industry to provide additional funding to the Investor Forum.
- The Government has announced plans for a call for evidence on a ‘pot for life’ model, a lifetime provider system to simplify the pensions market by allowing individuals to move towards having one pension pot for life.
- The above includes a potential expanded role for Collective DC (CDC) schemes in future.
- Next steps on the Government's plans to introduce the multiple default consolidator model for defined contribution (DC) schemes, to enable a small number of authorised schemes to act as a consolidator for eligible pension pots under £1,000.
- The Government has confirmed that it will be pushing ahead with plans to explore how the Pension Protection Fund (PPF) could act as a DB consolidator.
- The Government has announced plans to consult on whether changes to rules around when defined benefit (DB) pension scheme surpluses can be repaid could incentivise investment in UK growth.
- Government will reduce the authorised surplus payments charge from 35% to 25% from 6 April 2024.
- The Government has confirmed that it will introduce a March 2025 deadline for the accelerated consolidation of Local Government Pension Scheme (LGPS) (England and Wales) assets, as well as new private equity investment requirements.
- Government moves toward DC pension fund consolidation expecting to see a market in which most savers belong to schemes of £30 billion or larger by 2030.
- Confirmation that the Government will stand by the state pension triple lock in full, with pensioners to receive an 8.5 per cent increase from April 2024
- The Government has announced a review of the current master trust market, five years on since the introduction of the 2018 Master Trust regulations.

- Confirmation that the removal of the lifetime allowance (LTA) is on track for 6 April, and reassurance that the changes will not require income tax to be payable on inherited pensions where the person dies before age 75.

Climate and Sustainability

- The Government will freeze main and reduced rates of Climate Change Levy in the UK in 2025-26 at the main rate of £0.00775/kWh for electricity and gas, £0.02175/kWh for liquid petroleum gas (LPG), and £0.06064/kWh for any other taxable commodity. Reduced rates will be frozen at 92% for electricity, 77% for LPG, and 89% for gas and any other taxable commodity.
- Approximately £300 million a year in tax relief will be provided in exchange for meeting energy efficiency targets under the new six-year Climate Change Agreement scheme which starts from 2025, and expanding VAT relief available on the installation of energy-saving materials in residential buildings or those used solely for a relevant charitable purpose.
- The Government will legislate in Autumn Finance Bill 2023 to increase the Plastic Packaging Tax rate in line with CPI, from 1 April 2024, to £217.85 per tonne.
- Reforms to the Emissions Trading Scheme, as set out by the UK ETS Authority in July 2023, will reduce the number of ETS permits available for purchase from government by 45% between 2023 and 2025. It will also extend the scheme to cover emissions from domestic maritime and energy from waste in 2026 and 2028 respectively.

Health and Care

- The rates of the Severe Disability Premium Transitional Element will be increased to provide further support for legacy benefit claimants in Great Britain that naturally migrate to Universal Credit.
- The Autumn Statement recommits to the NHS Agenda for Change pay deal announced this year, including the non-consolidated payment for 2022-23, which was paid out from June 2023
- The Government is increasing its core funding to the World Health Organisation by £2 million.
- Following the recent consultation, the government will establish an expert group to develop a new voluntary occupational health framework in Great Britain.
- A further £51 million in further funding for the Our Future Health (OFH) programme, a resource for health research, was announced to help genotype their first 1 million participants and to recruit new volunteers, to support the development of better ways to prevent, detect and treat diseases.
- The Government will expand access to Individual Placement and Support (IPS) for severe mental illness, an employment support service within community mental health teams in England, to reach an additional 100,000 people over the next 5 years.
- In May 2023, the government committed £121 million in funding as a first response to Lord O'Shaughnessy's recommendations on improving the UK's commercial clinical trial offer. Up to £20 million of this funding will launch the first Clinical Trial Delivery Accelerator, focused on dementia.
- No new announcements on social care.

Technology, Skills and Infrastructure

- The Government confirmed a new Baccalaureate-style qualification which will combine A-Levels and T-Levels together, broaden the number of subjects students take and create a unified structure that puts technical and academic education on equal footing. This reform is aimed to deliver the Prime Minister's goal for every student in England to study some form of maths and English to age 18, boosting basic skills and bringing the UK in line with international peers.
- To support pension scheme investment into the UK's most innovative companies, the Government will commit £250 million to two successful bidders in the Long-term Investment for Technology and Science (LIFTS) initiative, subject to final agreement. This will create new investment vehicles tailored to the needs of pension funds, generating over a billion pounds of investment from pension funds and other sources into UK science and technology companies.
- The government will progress the National Infrastructure Commission's (NIC) April recommendations on planning by delivering reforms to reduce the average consenting time to 2.5 years for significant projects.

- The Government will invest £500 million in further UK based compute so that universities, scientists and start-ups have access to the compute power they need to help make the UK an AI powerhouse.
- The Government will commission the National Infrastructure Commission to undertake studies on making the electricity distribution network fit for net zero and on how connected and autonomous vehicles and mobility can deliver growth.
- The Government will develop a fellowship course targeting mid-career science and technology venture capital investors, similar to the Kauffman Fellowship in the US, to be operational in 2024. This will produce the next generation of world-leading UK VC investors to support the UK's most innovative high-growth companies.
- The Government aims to invest £250 million in new fellowships for world-class mid-career researchers.
- The Government will support the establishment of a National Academy focused on Mathematical Sciences.

Work

- The main rate of National Insurance will be cut by two per cent, with the change taking effect from January 2024.
- Class 2 National Insurance will be abolished under plans to simplify the tax system for the self-employed, while Class 4 National Insurance will be cut by one percentage point to eight per cent from April
- The National Living Wage will rise by 9.8% to £11.44 an hour
- Extension of the Restart scheme, along with expanding its eligibility for two years. Those who have been on Intensive Work Search for 6 months will now be eligible, as opposed to the previous requirement of 9 months. In addition, work coaches will track the activity of participants to ensure they comply with requirements of the Restart programme
- Phased rollout of Mandatory Work Placements. Claimants will be mandated to attend a time-limited work placement or undertake other intensive work activity who have completed Restart and remained unemployed after 18 months.
- Extension of relief for employers of veterans for one year from April 2024
- Freezing of the Lower Earnings Limit and Small Profits Threshold for one year from April 2024
- Extension of the £2,500 surplus earnings threshold for one year from April 2024.

Business and Economy

- The Government will make permanent a policy of full capital expensing from 2026 – 2027. This means for every £1m a company invests, they will receive £250,000 of their tax bill in the same year.
- Two new investment zones will be established in the regions of West Yorkshire and Wrexham and Flintshire.
- The government is extending the Growth Market Exemption, a relief from Stamp Duty (SD) and Stamp Duty Reserve Tax (SDRT), to include smaller, innovative growth markets. It will also increase the threshold for the market capitalisation condition that is used within the exemption from £170 million to £450 million. These changes will be included in the Autumn Finance Bill 2023 for implementation from 1 January 2024
- There will be new simplified R&D tax relief, combining the existing R&D Expenditure Credit and SME schemes.
- The intensity threshold in the additional support for R&D intensive loss-making SMEs will be reduced from 40% to 30%, bringing approximately 5,000 more R&D intensive SMEs into scope of the relief.
- £4.5bn of support will made available over the 5 years to 2030 to attract investment into strategic manufacturing sectors.
- A 75% business rates discount for the hospitality and leisure sectors will be extended by another year.
- The Government will freeze alcohol duties until 1 August 2024 and delay its annual uprating decision to Spring Budget 2024 to give businesses time to adapt to the duty system introduced on 1 August 2023
- The Government will establish a Growth Fund within the British Business Bank. The Growth Fund will give pension schemes access to the BBB's pipeline of opportunities, crowding private capital into the UK's most promising businesses.
- The Government will invest £145 million through Innovate UK to support business innovation. This includes £20 million for productivity and decarbonisation of foundation industries, £50 million for battery innovation, £50 million for investment in Catapults, and £25 million for innovation in critical technologies.
- The Government is creating a £150 million fund to support Investment Zones and Freeports across the UK to secure business investment opportunities. The fund will be available over five years.

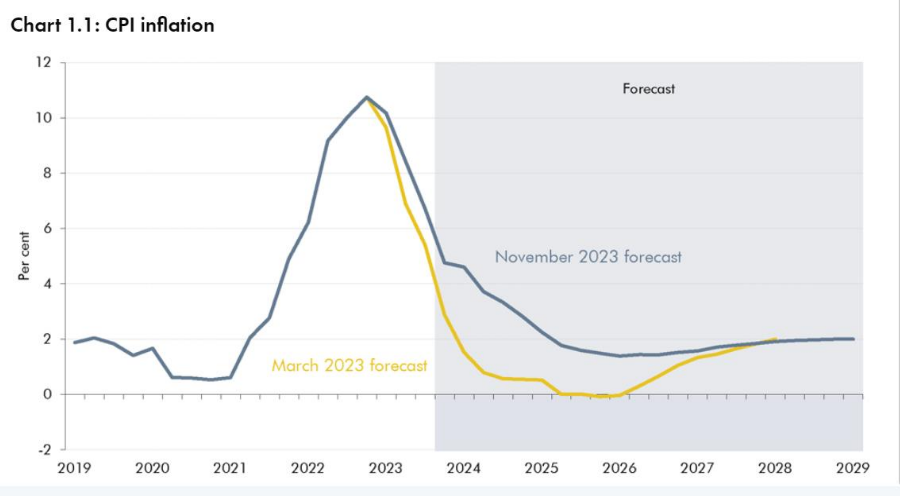
- The window to claim Freeport tax reliefs will be extended from five to ten years, until September 2031 in English Freeports, conditional on agreement of delivery plans with each Freeport. The UK Government will work with the devolved administrations to agree how the 10-year window to claim reliefs can be extended to Freeports in Scotland and Wales.

Public Finances

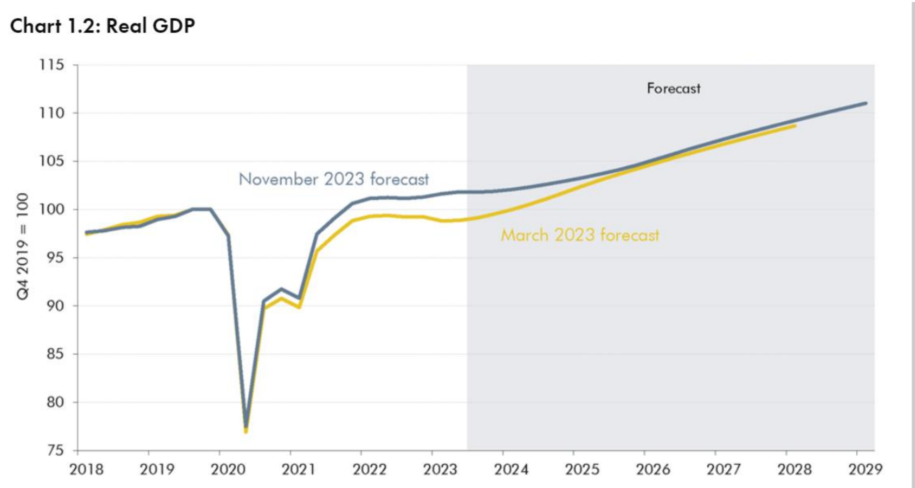
Financial statements require the Chancellor to outline accompanying forecasts made by the **Office for Budget Responsibility (OBR)** regarding outcomes for the economy and public finances. Full forecasts published on 22 November can be found here.

The key takeaways from the OBR's forecasts are:

- The economy recovered more fully from the pandemic and weathered the energy price shock better than anticipated.
- Inflation will remain higher for longer, taking until the second quarter of 2025 to return to the 2 per cent target, more than a year later than forecast in March 2023.
- More persistent inflation means markets expect interest rates to be more than a full percentage point higher than the OBR assumed in March

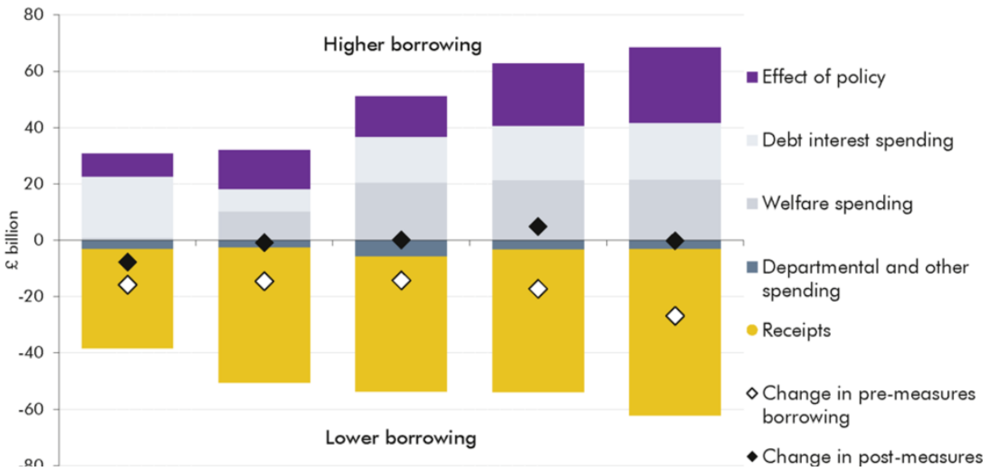


- There has been a revision down in the medium-term potential growth rate of the economy to 1.6 per cent, from 1.8 per cent in March.
- Slower growth from a higher starting point means that, in our central forecast, the level of real GDP in 2027 is only 0.6 per cent higher than March. Real GDP per person remains 0.6 per cent below its pre-pandemic peak and in the central forecast only recovers that peak at the start of 2025.



- The Chancellor’s policy package in this Autumn Statement will provide a modest boost to demand in the near term and a small but lasting benefit to the supply side of the economy.
- Unemployment rises to 1.6 million people (4.6 per cent of the labour force) in the second quarter of 2025.
- The medium-term fiscal outlook has also improved materially compared to March, with pre-measures borrowing forecast to be £26.8 billion lower in 2027-28
- Borrowing was £19.8 billion lower in the first half of this financial year than we forecast in March, due almost entirely to stronger receipts growth.

Chart 1.4: Public sector net borrowing: change since March



Next Steps / Further Information

The Policy and Public Affairs Team will continue to update members on any relevant developments regarding the measures within the Autumn Statement 2023.

Treasury publications on the Autumn Statement 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 Charlie Wynne via Charlie.Wynne@actuaries.