# Autumn Budget and spending round 2024

A Prospect briefing • October 2024

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Prospect
100 Rochester Row
London  SW1P 1JP

Tel: 0300 600 1878

prospect.org.uk

# Introduction

This Budget and spending round marks the first full “fiscal event” delivered by the Labour Government elected in July.

Along with a number of important tax announcements it allocates budgets for Government departments for the fiscal year 2025-26 and sets a framework and broad direction of travel for the full Spending Review expected next Spring, which will allocate departmental budgets for fiscal years 2026-27, 2027-28, and 2029-29. It is published alongside a new set of economic and fiscal forecasts prepared by the independent Office of Budget Responsibility.

It therefore has important consequences for civil servants and anyone working in the public sector, for industries in which public investment and regulation plays a role, and for workers and businesses throughout the economy.

This briefing aims to highlight key information and implications that may be of particular interest to Prospect and Bectu members. It does not aim to cover all tax changes that might impact members given that these will be widely covered elsewhere.

# Policy decisions summary

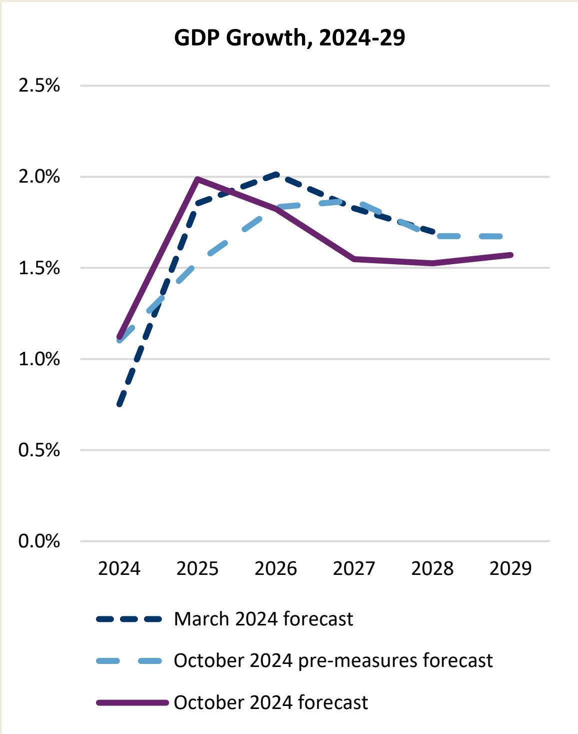
In aggregate, budget polices amount to a substantial fiscal loosening. Over the medium-term, public spending is forecast to be around £75bn per year higher. Driving this is around £50bn per year to cover the alleged £22bn ‘black hole’ left by the previous government and to boost spending on public services (particularly health and education), with the remainder accounted for by around £25bn per year in additional capital spending. This additional spending is offset by around £40bn worth of tax rises, with £25bn of this accounted for by an increase in employer National Insurance Contributions. The net effect of these tax and spending decisions is that, over the medium-term, borrowing is now expected to be around £35bn per year higher than it would otherwise have been.

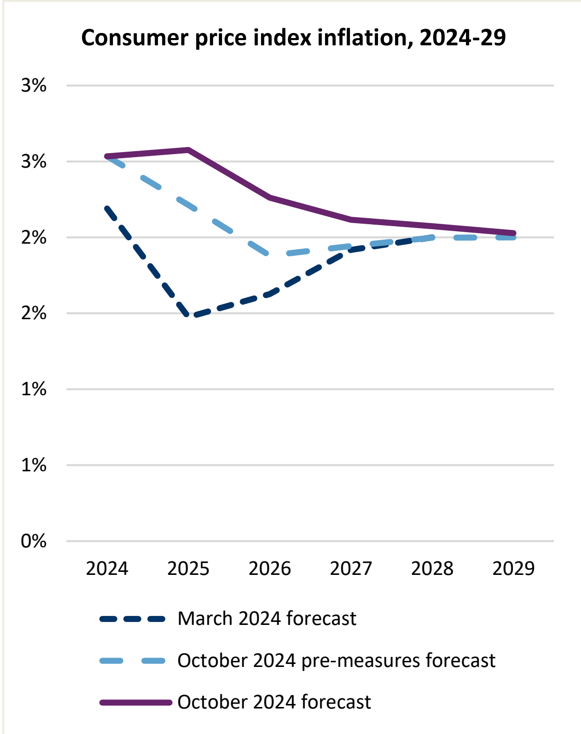
# Economic and fiscal forecasts

Published alongside the Chancellor’s statement are new economic forecasts prepared by the independent Office for Budget Responsibility – their first since March this year. These forecasts probably represent the best available estimates of the likely range of medium-term scenarios and are the basis on which the Government plans and formulates policy.

The OBR’s medium-term forecast for potential output (i.e. the economy’s productive capacity) is essentially unchanged from their previous forecast in March. The OBR forecasts that budget policies will boost growth in the near-term, but it expects that this effect will be offset by weaker growth later in the forecast period, with the Bank of England assumed to keep interest rates higher than they otherwise would have to offset some of the fiscal loosening.

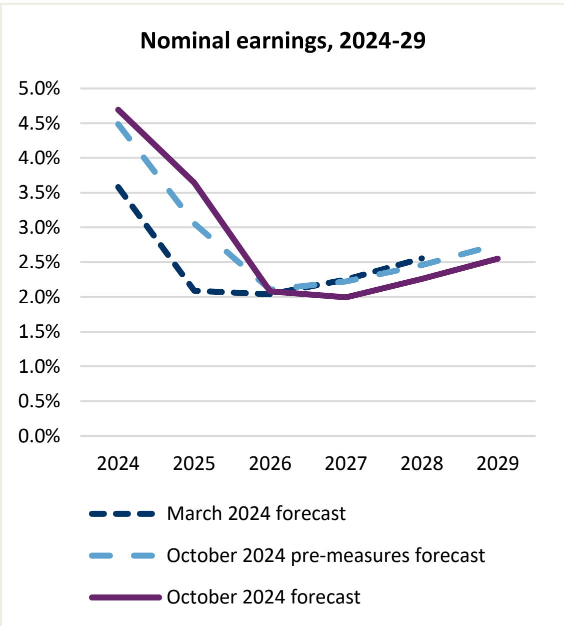
On its central scenario, the OBR forecasts GDP growth of 1.1% in 2024, 2.0% in 2025, before it settles at around 1.5% for the remainder of the forecast period.

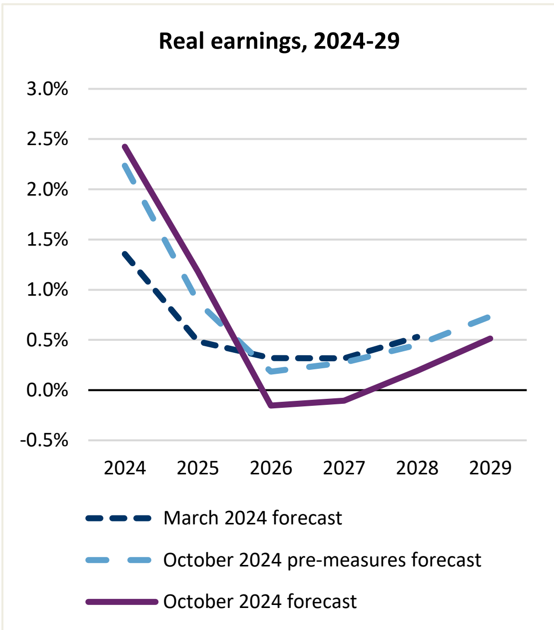



*Source: Prospect analysis of OBR data*

Inflation is forecast to be materially higher over the near-term than the OBR expected in March. The OBR says this is partly due to greater-than-expected persistence in wage growth and partly due to the impact of budget policy decisions. The labour market is now expected to be tighter, with unemployment lower in the near-term and nominal earnings growth slightly higher. In aggregate, the OBR expects the combination of these effects to boost real earnings growth in the near term, to 2.4% in 2024 and 1.2% in 2025, before real earnings growth turns negative again in 2026 and 2027 as inflation once again starts to outpace nominal earnings.




*Source: Prospect analysis of OBR data*

It should be borne in mind that average earnings growth will not necessarily match average pay awards or settlements, given that it is affected by factors such as changes in workforce composition and number of hours worked as well as changes to salaries or pay rates offered for particular roles.

# Tax changes

The Chancellor confirmed various tax changes committed to in the Labour general election manifesto, such as abolishing the non-dom tax regime, applying VAT to private school fees, and extending the windfall tax on oil and gas companies.

Outside of pre-announced changes, the major tax changes were as follows:

- **Employer National Insurance contributions**: Increase rate by 1.2ppts to 15%, cut the Secondary Threshold to £5,000 until 5 April 2028 and uprate with CPI thereafter, increase Employment Allowance to £10,500, remove the £100,000 Employment Allowance eligibility threshold. To raise around £25bn per year by the end of the forecast period.
- **Capital Gains Tax**: Increase the main rates of CGT to 18% and 24% from 30 October 2024, and the Business Asset Disposal Relief (BADR) and Investors' Relief (IR) rate to 14% from 6 April 2025 and to 18% from 6 April 2026. To raise around £2.5bn per year by the end of the forecast period.
- **Inheritance Tax**: Include unused pension funds and death benefits payable from a pension in the value of estates from 6 April 2027. To raise around £1.5bn per year by the end of the forecast period.
- **Tax gap and tax avoidance**: A variety of measures to close the tax gap and reduce tax avoidance. To raise around £6.5bn by the end of the forecast period.

The Chancellor did not go ahead with proposals to levy National Insurance on employer contributions to workplace pensions, which some coverage suggested was under consideration ahead of the Budget. Prospect had warned that this could have a significant impact on the financial position of workplace pension schemes.

# Public sector investment and the "fiscal rules"

The Chancellor confirmed the details of the government's two fiscal rules in the budget, which are as follows:

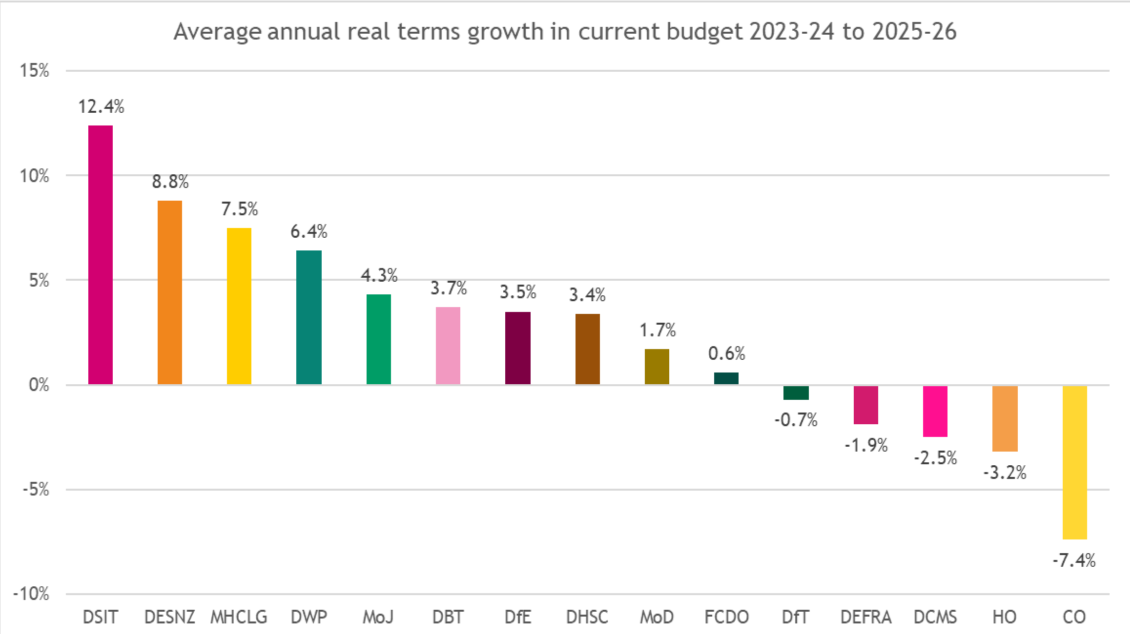
1. **'Stability rule'**: The stability rule requires that the current budget must be in surplus in 2029-30, until 2029-30 becomes the third year of the forecast period. From that point, the current budget must then remain in balance or in surplus from the third year of the rolling forecast period, where balance is defined as a range: in surplus, or in deficit of no more than 0.5% of GDP.
2. **'Investment rule'**: The investment rule requires that public debt, defined as public sector net financial liabilities (PSNFL or net financial debt for short), is falling as a share of the economy by 2029-30, until 2029-30 becomes the third year of the forecast period. Net financial debt should then fall by the third year of the rolling forecast period.

The OBR has assessed that both of these rules are due to met two years early, in 2027-28. The tax rises announced in the budget helped the government meet its stability rule, whereas the investment rule was always likely to have been met, given the estimated amount of 'headroom' there was against PSNFL going into the budget. Unlike the measure of debt the previous government used for its fiscal rules (public sector net debt, or PSND), PSNFL positively accounts for financial assets on the public sector balance sheet. Taking account of such assets presents more favourable picture of the public finances and provides the government with more ‘fiscal space’ to boost public investment. It has used this space to prevent real-terms cuts to capital spending that had been pencilled in by the previous government. Public sector net investment was due to fall from 2.5% of GDP in 2023-24 to 1.7% in 2028-29, but is now expected to average 2.6% of GDP over the course of the Parliament.

Prospect had previously been advocating for a change in the fiscal rules which recognises the positive effect of revenue generating public investments, so moving away from PSND to PSNFL is welcome. The government will no longer be disincentivised from lending money to and taking equity stakes in private companies, as PSNFL will positively recognise these as revenue generating financial assets. However, other than by creating additional fiscal headroom, the measure does not directly incentivise the public sector to invest in its own physical assets. For example, GB Energy could borrow to invest in the financial assets of private companies without negatively impacting PSNFL, because it will have a financial *asset* to offset its financial *liability*. Whereas if GB Energy borrows to invest in an energy project itself, PSNFL will be negatively impacted by the financial liability that GB Energy has taken on, and not take account of the fact that it has a physical asset which will generate revenue in future years.

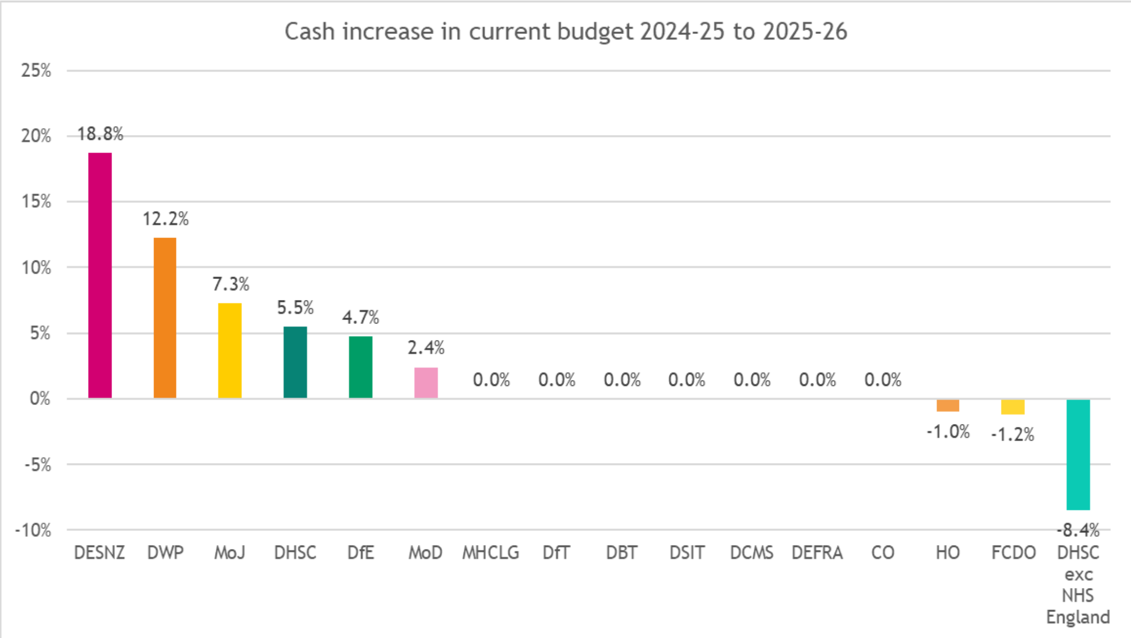
## Budget settlements for 2025-26

The Budget documentation provides real terms growth figures for departmental budgets averaged over 2023-24 (the final full year of the last Government’s responsibility) to 2025-26. These give some indication of where the new Government sees the greatest spending pressures or public priorities.




Changes in current budgets next year relative to 2024-25 range from 18.8% for DESNZ to a fall of 8.4% for the non-NHS part of the Department of Health and Social Care.

These figures and comparisons should not be given too much weight as complicated accounting or reprofiling issues can be involved and the Budget documentation on supplies numbers rounded to the nearest £100m which is very crude for smaller departments such as DCMS or DEFRA. But they give also some sense of the range of outlooks and pressures different areas of the civil service may face, particularly as they approach next year's pay round.




Noteworthy settlements for smaller departments include:

- "£116.0 million in 2025-26 for the **Food Standards Agency** to continue delivering an effective food regulatory scheme, thereby safeguarding public health and protecting the interests of consumers"
- "£365.4 million for the **UK Statistics Authority (UKSA)** in 2025-26. This will fund the ongoing production and improvement of national statistics, with priority given to GDP, prices, employment, and population data, and additional work to recover the quality of critical national labour market statistics. This funding will allow the UKSA to continue supporting the government's objectives, including on data to inform the government's missions, building on the existing Integrated Data Service, and the continuation of the Future of Population and Migration Statistics Programme."

# Public sector pay

The Budget did not set a firm policy or cap for public sector pay for next year or future years, but did warn of tight constraints and difficult decisions, and implied that the Government reserved the right not to honour recommendations of Pay Review Bodies that exceed what has been budgeted for:

> "The government remains committed to delivering fair and timely pay awards for public sector workforces in 2025-26. However, it will need to carefully consider the trade-offs required to afford pay awards. Over the medium-term, above inflation pay awards are only affordable if they can be funded from improved productivity.
>
> "Departmental settlements for 2025-26 will need to fund the next round of public sector pay awards, and departments will set out their affordability evidence to the PRBs in the usual way, taking account of expected inflation over the next financial year, forecast by the OBR to be 2.6%. If the PRBs recommend pay awards above the level departments have budgeted for, the government will have to consider the justification – for example where there are especially acute recruitment and retention demands, or where productivity improvements can unlock further funding."

## Implied spending plans for 2026-29

As well as allocating Departmental Budgets for 2025-26, the Budget sets out a revised spending "envelope" for subsequent years which effectively sets the framework for the full three-year Spending Review expected in the spring.

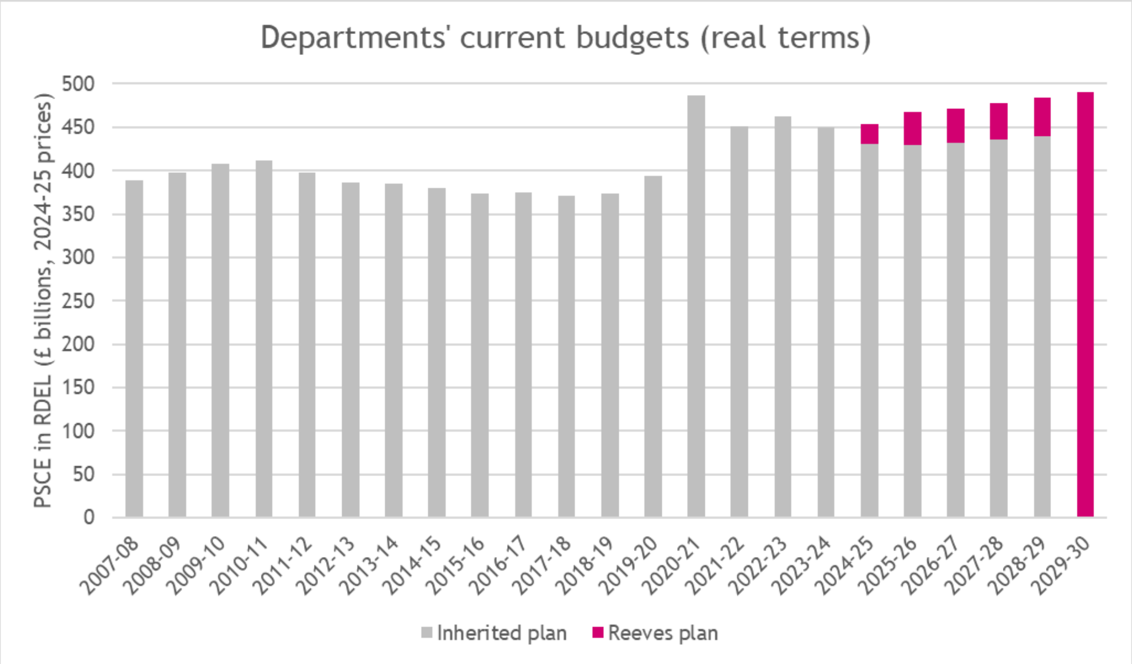
The combination of tax rises and extra borrowing allowed by the revised fiscal framework mean that the Government has been able to significantly augment the plans for both current and capital spending inherited from the previous Government, by (in today's prices) around £45bn and £22bn respectively.

How these augmented spending totals will be allocated will be determined by the Spring spending review. If, as seems likely, the NHS (and to at least some extent also education and defence) receive the lion's share of these increase, these plans may still result in tight settlements for "unprotected" departments and their ALBs.

The IFS warned in response that the overall rate of growth in current spending after 2025-26 will "almost certainly involve uncomfortably tight settlements for many public services " and that continued spending pressures may force the Government to choose between further tax raises or "cutting unprotected areas" in two years' time.[1]

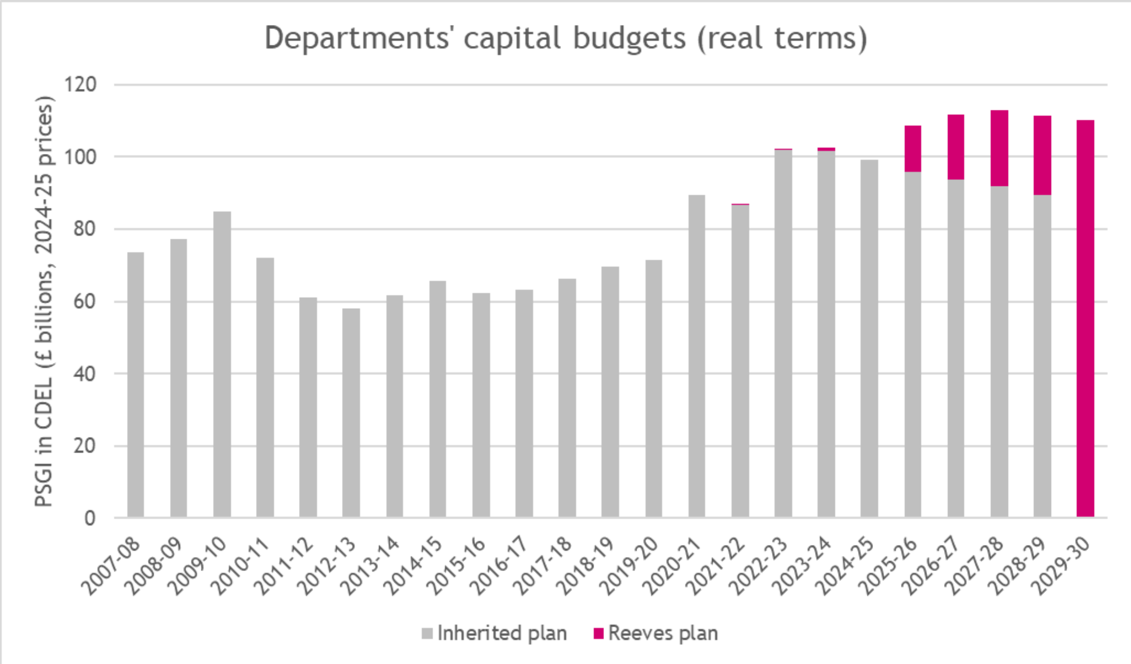
The Resolution Foundation notes that while some "unprotected" Departments such as Justice receive substantial real terms per person increases between 2023-24 and 202526, "it is likely that pockets of austerity will remain over the Parliament as a whole. By 2029-30, unprotected departments are left with implied real terms per person cuts of £8.2 billion compared with 2024-25."[2]

Allocations to departments beyond 2025-26 will be determined by the Spending Review due to conclude in spring 2025. The Budget document emphasises that its approach will be "mission-led, reform-focused and technology-enabled".




[1] https://ifs.org.uk/articles/autumn-budget-2024-initial-ifs-response

[2] https://www.resolutionfoundation.org/press-releases/chancellor-provides-326-billion-boost/



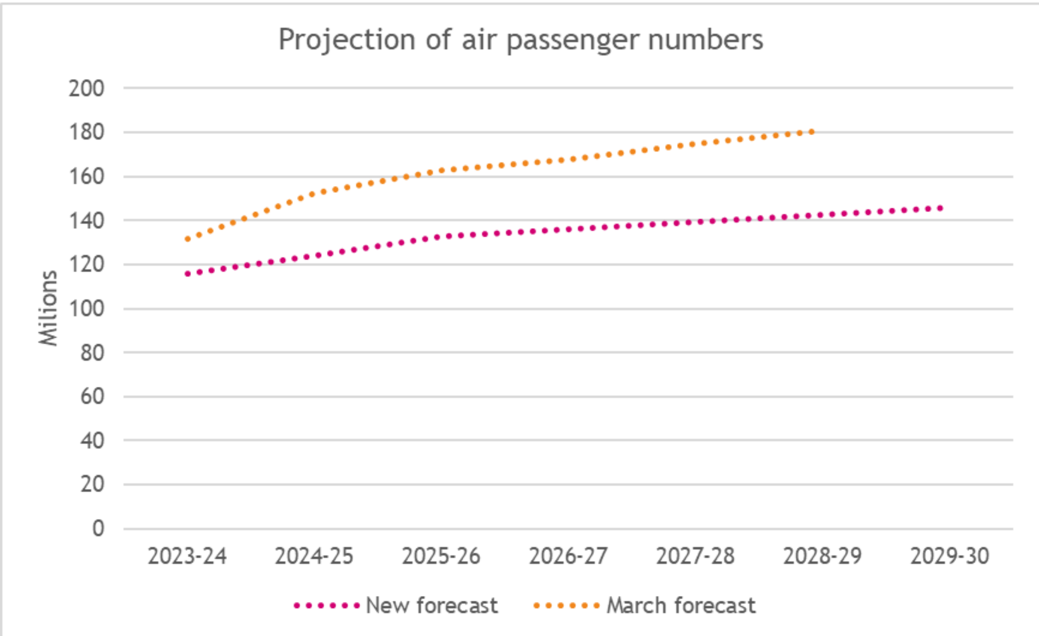

## Announcements of interest to key sectors

*Aviation*

In line with the Government's Industrial Strategy, the Budget announces "£975 million for the aerospace sector over 5 years to fund vital research and development for the latest aerospace technology"

Planned acceleration of Air Passenger Duty uprating will raise an additional £720m in annual revenues by 2029-30.

The Office for Budget Responsibility is forecasting around 40 million fewer air passengers at the end of the decade than it did in March, though it is unclear whether this is related to the impact of higher APD or simply a result of lower forecast GDP growth over the period (usually considered to be the most important determinant of air traffic).



*Source: OBR documents*

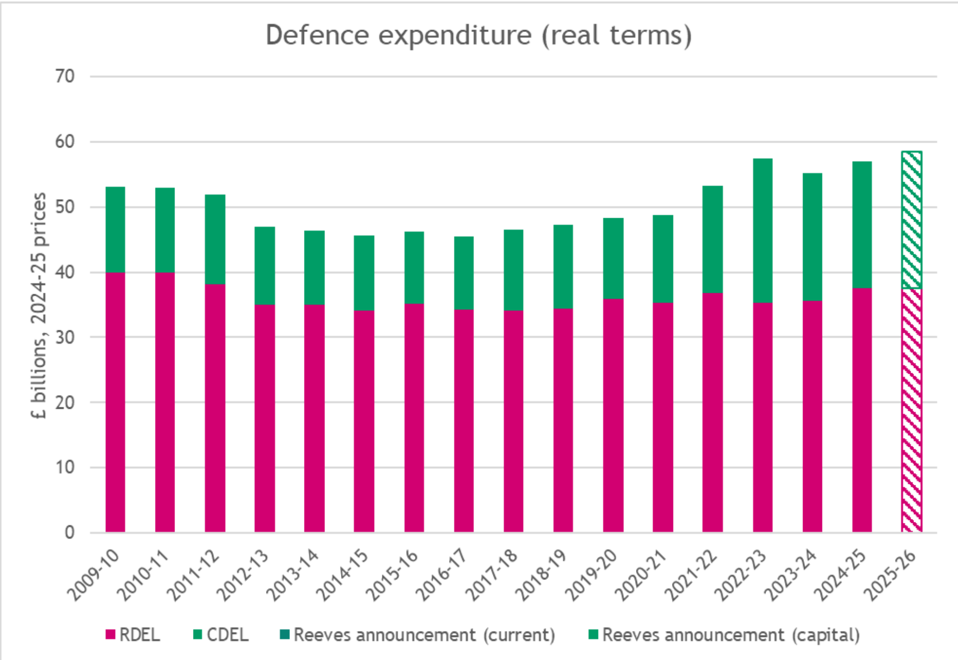
*Creative industries*

In line with its identification of creative industries as a key sector for its National Industrial Strategy, the Budget confirms that the Government will:

- “continue to broaden and diversify the talent pipeline in the creative industries by providing £3 million to expand the Creative Careers Programme, giving school children the opportunity to learn more about career routes and directly engage with the workplace.”
- deliver “£25 million funding for the North East Mayoral Combined Authority (NEMCA) has been confirmed. NEMCA plans to use the funding to remediate the Crown Works Studio site. This will support the North East’s creative industries and is expected to lead to around 8,000 new jobs in the region.”
- “continue to fund important programmes such as Create Growth and the UK Games Fund.”
- maintain “Tax reliefs for world-leading creative industries, which will provide £15 billion of support over the next 5 years”, this includes additional tax credits for visual effects at an enhanced 39% rate for film and high-end TV production to come into force form 1st April 2025.

*Defence*

The Chancellor announced a £2.9bn increase to the total defence budget, maintaining its level as a share of GDP. Most of this increase was allocated to capital expenditure, with the current budget effectively flat in real terms.




*Source: Prospect analysis of HMT and OBR data*

The Budget asserts that “Of the £56.9 billion defence budget in 2024-25, around £25 billion will be spent on UK industry, supporting advanced manufacturing in aircraft, radars, submarines, and other key industrial capabilities.”

As part of the Spending Review, defence is identified by the Budget as a "priority area for reform”, noting that:

> *"the government will transform the defence operating model, establishing a new Strategic Military Headquarters and National Armaments Director role to create clearer accountability, faster delivery, less waste and deliver greater value for money"*

*Energy*

The Budget says that "new nuclear will play an important role in helping the UK achieve energy security and clean power". Regarding Sizewell C, it says:

> *"This settlement provides £2.7 billion of funding to continue Sizewell C's development through 2025-26. The equity and debt raise process for this project will shortly move to its final stages and will conclude in the spring. As with other major multi-year commitments, a Final Investment Decision on whether to proceed with the project will be taken at Phase 2 of the Spending Review."*

The Budget states that GB Energy will be established with £125m of funding in 2025-26. £100m of this is capital funding, with £25m resource spending to establish GB Energy as a company.

In her speech the Chancellor said she was providing "providing funding for 11 new green hydrogen projects across England, Scotland and Wales – they will be among the first commercial scale projects anywhere in the world, including in Bridgend, East Renfrewshire and in Barrow-in-Furness".

*Environment and Food*

The Budget states that the Government will prioritise progress on "climate adaptation, food security, net zero and environmental goals" by

- "Providing £5 billion over 2024-25 and 2025-26 to support the transition towards a more productive and environmentally sustainable agricultural sector in England, ensuring food security. This includes £60 million this year for the Farming Recovery Fund. "
- "Pledging at least £400 million in capital across 2024-25 and 2025-26 for tree planting and peatland restoration to protect soils, rivers, and biodiversity, and contribute to climate mitigation and resilience."
- "Committing £2.4 billion over 2024-25 and 2025-26 to support flood resilience: protecting communities across the country and our economy from the impacts of flooding"
- "Reaffirming the government's commitment to move towards a zero-waste economy and implement the Collection and Packaging Reforms Programme. Extended Producer Responsibility for packaging will bring in over £1 billion per annum in revenue to improve recycling outcomes."

Defra is also seen as making a contribution to economic growth by

- "Providing £208 million across 2024-25 and 2025-26 to support the transformation of the government's biosecurity facilities at Weybridge. This will enhance our ability to respond to the threat disease outbreaks pose to health, farming, food security, trade, and the economy."
- "Allocating at least £58 million across 2024-25 and 2025-26 for research and innovation in support of our climate resilience and net zero goals."

The Budget will also "support the government's growth mission by allocating £70 million in 2025-26 to support infrastructure and housing development while boosting nature recovery. This includes £14 million for the Nature Restoration Fund to offset the environmental impact of development, with a developer contribution, and £13 million to expand Protected Sites Strategies in priority areas"

The 2025-26 settlement for Defra appears however to be one of the less generous in the Budget, especially on the current side. The documents also say that the Government "is facing significant funding pressures on flood defences and farm schemes of almost £600 million in 2024-25. While the government is meeting those commitments this year, it is necessary to review these plans from 2025-26 to ensure they are affordable."

*Heritage*

The Budget says that the Government is "Increasing support for arts and culture by raising Grant-in-Aid for the National Museums and Galleries to help support their long-term sustainability, and providing a package of cultural infrastructure funding that will build on existing capital schemes – with additional capital investment to support cultural organisations across the country."

Exact figures for these increases are not given, however and the Budget documentation show the DCMS current budget falling by 2.5% in real terms between 2023-24 and 2025-26, and its capital budget falling from £800m in 2024-25 to £700m in 2025-26. The documentation indicates that this may be related to accounting complexities and "one-off pressures" but more information will be needed to fully understand the implications for museums funding.

The Budget confirms new rates of Museums and Galleries Tax Relief announced at Spring Budget 2024.

*IT and telecoms*

The £13bn increase in total public investment for next year announced by the Budget includes "over £500 million in 2025-26 to deliver Project Gigabit and Shared Rural Network to drive the rollout of digital infrastructure to underserved parts of the UK, including delivering full gigabit broadband coverage by 2030."

The Budget states that the Government is committed to "maximising the growth benefits of the UK's thriving digital and technology sectors", saying it:

> "Will shortly publish the Artificial Intelligence Opportunities Action Plan setting out a roadmap to capture the opportunities of AI to enhance growth and productivity and better deliver services for the public.
>
> "Is creating a National Data Library to unlock the full value of our public data assets. This will provide simple, ethical, and secure access to public data assets, giving researchers and businesses powerful insights that will drive growth and transform people's quality of life through better public services and cutting-edge innovation, including AI."

*Public services*

The Budget states that “the government is also developing a strategic plan for a more efficient and effective civil service, including through improving skills and harnessing digital technology to drive better outcomes for public services.”.

As part of the Spending Review the civil service is identified as a "priority area for reform”, noting that

> “The civil service is a key enabler to support improved productivity across the UK’s public services. This government is therefore taking forward work to deliver a civil service workforce plan and underpinning reform proposals for a more efficient and effective civil service, including bold options to improve skills, harness digital technology and drive better outcomes for public services.”

On harnessing digital technology, “The Department for Science, Innovation and Technology will continue to drive towards a renewed strategy for digital transformation across the public sector to ensure that fundamental reforms in public services are prioritised and digital-led".

The Budget also states that the Government will “will also use the new Procurement Act to create a simpler and more transparent regime for public sector procurement that will deliver better value for money and reduce costs for business and the public sector. The government will implement the Act in February 2025 with further reforms including a new National Procurement Policy Statement”.

*Science*

The Chancellor announced 20.4bn in total funding for R&D in 2025-26, thus “delivering and protecting record levels of government R&D investment”. This is roughly in line with the amount allocated by the last Government for 2024-25.

However comparison with previous years is complicated by the fact that the Budget document implies that this includes funding for the UK’s associate membership of Horizon Europe, which it has been speculated could amount to between £800 and £1bn in 2025-26.[3] It is not clear from publicly available sources what has been spent on Horizon associate membership already or how this has been funded.

DSIT is tasked with a swathe of high-stakes developments, from supporting digital transformation of corporate functions in government departments, and spinning-up a National Data Library, to seeding R&D funding in key growth sectors. We welcome the recognition of STEM investment as a driver of economic health, but the granular implications of this budget for science and technology will only start to become clear with the publication of the DSIT and UKRI spending allocations.

According to the documentation the DSIT settlement provides for:

- “£13.9 billion for DSIT to invest in R&D in 2025-26. This includes at least £6.1 billion of support for core research,118 growing allocations at least in line with inflation to help our world-leading universities and researchers continue to deliver the cutting-edge ideas that drive growth.”

[3] https://www.researchprofessionalnews.com/rr-news-uk-politics-2024-10-breaking-budget-brings-fears-of-major-research-funding-cut/

- "£2.7 billion for association to EU research programmes and partnerships and the costs of the Horizon Europe guarantee scheme."
- "An extension of the Innovation Accelerators programme to continue to bolster high-potential innovation clusters in the Glasgow City Region, Greater Manchester and the West Midlands. • Support for the commercialisation of university research with at least £40 million over 5 years for spin-outs proof-of-concept funding, and improvements to the support for researchers spinning out the UK's cutting-edge research."
- "Up to £37 million in 2025-26 for the Made Smarter Innovation programme to help firms integrate digital technologies into the manufacturing process, complementing the Made Smarter Adoption programme."

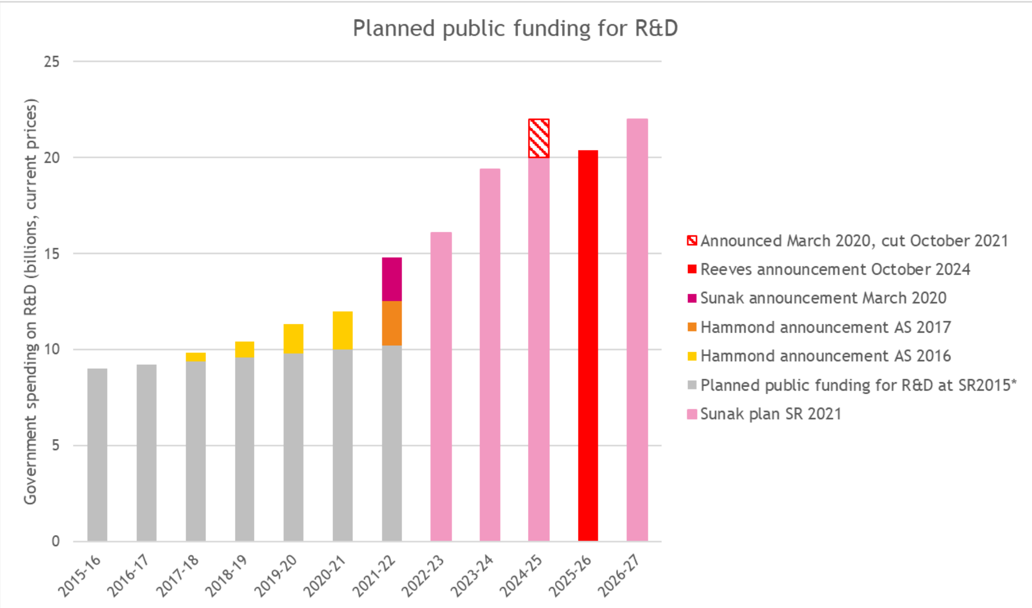
The Budget specifies some projects that funding will be available for, including:

- "At least £25 million in 2025-26 to launch a new multi-year R&D Missions Programme to solve targeted problems that will crowd in private and third sector investment to accelerate delivery of each mission"
- "Significant support in 2025-26 for UK fusion energy research, to build on the UK's position as a global leader in sustainable nuclear energy."

Science funding is also seen as key to supporting the government's Industrial Strategy, especially the digital and technology sectors. In line with this the Government

- "will shortly publish the Artificial Intelligence Opportunities Action Plan setting out a roadmap to capture the opportunities of AI to enhance growth and productivity and better deliver services for the public. "
- "Is creating a National Data Library to unlock the full value of our public data assets. This will provide simple, ethical, and secure access to public data assets, giving researchers and businesses powerful insights that will drive growth and transform people's quality of life through better public services and cutting-edge innovation, including AI."

The last Government initially promised to raise total R&D spending to £22bn by this year, but in 2021 this target was pushed back to 2026-27, and there was no indication before the election of whether or how the last Government expected to meet this. Whether the new Government will aim to meet or exceed it as part of its coming Spending Review remains to be seen.




*Source: Prospect analysis of HMT and OBR data*

The document does state that “10-year budgets for key R&D activities” will be set out as part of the Spending Review, “to create a stable environment for productive long-term partnerships with industry”.

*Transport*

Transport related announcements include:

- “increased investment in local roads maintenance and local transport”
- “delivery and development of growth enhancing major transport projects, providing critical connectivity between our biggest economic centres and supporting the development and delivery of new housing”
- “further support to decarbonise the transport sector”
- “support the government’s ambition to improve the performance and reliability of rail services, ensuring the rail sector can operate effectively and become financially sustainable”

Details of schemes to be supported (and some that will not be progressed) can be found in the main Budget “red book”.

# Prospect’s response

Responding on the day Prospect’s General Secretary Mike Clancy said:

> *“This was always going to be a tough budget and spending round, but it is positive to see the government taking action on growth.*
>
> *“The changes to the fiscal rules, which Prospect called for, are necessary and will allow capital investment in vital areas of the economy.*
>
> *“Sizewell C nuclear power station will protect and create thousands of skilled jobs. The Final Investment Decision (FID) has already been delayed, and it is critical that the timeline outlined today for FID in spring is now delivered. Ministers must continue during this time to give the project clear and visible support to reassure the workforce and investors.*
>
> *“Investment in the Ministry of Defence is also vital given the blackhole in its budget, but it will be apparent to all involved that this will also be needed in future years given the escalating threats to the UK.*
>
> *“This Budget set out plans for departmental spending and efficiencies, these will be challenging to achieve. The government must work with civil service trade unions like Prospect to deliver these in the most effective way, protecting vital public services.*
>
> *“The government also highlighted creative industries as an integral part of our industrial strategy and rightly regards the investment they are making in this area as critical to economic success. This is demonstrated by the announcement of film tax*

*reliefs, investment in North East England and a commitment to continued funding for the BBC World Service."*[4]

Head of Bectu Philippa Childs said:

*"There are promising signs in today's Budget that the government understands the incredible cultural and economic value of the creative industries.*

*"We welcome the minimum wage rise, which we hope will provide some welcome relief for many in the creative industries who continue to struggle due to low pay.*

*"Bectu, part of Prospect union, is also pleased to see additional VFX tax reliefs, the boost for film and TV development in the North East and the wider commitment to driving growth and jobs across the nations and regions. We now want to see this localised funding translate into meaningful support for creative talent and jobs across the UK.*

*"The commitment to investing in the BBC's World Service is also welcome news, and we will keep a keen eye on further details and continue to push for sustained and adequate funding for our world-leading public service broadcaster.*

*"Many in the creative industries continue to face low pay, poor conditions and precarious employment and significant challenges remain for the workforce. We hope to see today's promising signs backed by a significant and sustained commitment to bolstering the sector via the government's Industrial Strategy."*

**This briefing will be updated as new information and analysis comes to light. Please direct any suggestions, corrections or queries to martin.mcivor@prospect.org.uk**

[4] https://prospect.org.uk/news/it-was-always-going-to-be-a-tough-budget-but-investment-in-growth-is-welcome