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BRIEFING

Back for more?

Putting the 2024 Spring Budget in context

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Summary

A pre-election Budget produced pre-election tax cuts. Who could have seen that coming?

The Chancellor has delivered a second dollop of pre-election giveaways, against the backdrop of little-changed economic and fiscal forecasts. Inflation has come in lower than expected, and households have proved more resilient than feared. But average wages remain £14,000 below where they would have been had pre-financial crisis growth rates continued, and are still not expected to return to their 2008 levels until 2026. Lower inflation has translated into lower interest rates, delivering a fiscal benefit that averages £14 billion a year. But the public finance improvement fades over time as lower inflation and wages bring tax receipts in below previous expectations.

Despite the lack of a hoped-for public finance improvement, the Chancellor pressed ahead with big tax cuts anyway. The package, headlined by the second 2p reduction in the basic rate of National Insurance (NI) in just four months, will cost nearly £65 billion over the next five years. Just under a third of this has been funded by new tax rises totalling £6.6 billion in 2028-29. These include snaffling two of the revenue raisers Labour was relying on to fund their manifesto (scrapping the non-domicile tax regime and extending the windfall tax on energy firms). This is why oppositions, fearing government pickpockets, usually avoid announcing policy far in advance of elections.

However, borrowing takes most of the strain, funding two thirds of the tax cuts. This has reduced the Chancellor's headroom against his fiscal rule to have debt falling by 2028-29 to just £8.9 billion, the second lowest since the Office for Budget Responsibility (OBR) was founded and a third of the average level (£29 billion). Fiscal caution is being thrown to the wind: the Chancellor would fail to meet three out of the four fiscal rules used by his predecessors since 2010.

The now 4p cut will take the basic rate of NI to its lowest level since the 1980s in April, handing workers gains of up to £1,500 next year (2024-25) with 78 per cent going to the top half of the household income distribution. This will be partially offset by the latest set of threshold freezes this April, leaving the majority (79 per cent) of employees paying less tax as a result. Among taxpayers, gains will average £450, with the largest net tax cuts going to those earning £50,000 (who will gain £1,200) while taxpayers earning £19,000 or less will be worse off, losing more from threshold freezes than they gain from rate cuts. The Chancellor also raised the threshold at which Child Benefit starts to be tapered away to £60,000, and halved the rate of that taper. This welcome move will reduce some of the highest effective tax rates, benefitting almost half a million families who gain an average of £1,260 each.

But this Budget's tax cuts come after a frenetic few years for tax policy making, with huge rises and cuts announced in quick, and chaotic, succession. Taking all the changes to personal taxes announced in this parliament together leaves workers on middle and slightly higher earnings (£26,000 to £60,000) the net winners by 2027-28, with lower and higher earning taxpayers worse off. 55 per cent of employees gain overall, but there is significant variation: while full time employees will on average gain £120, their part time colleagues lose £240.

Looking beyond just employees, though, personal taxes are still going up significantly, with threshold freezes exceeding value of NI rate cuts by £20 billion (£41 billion versus £21 billion). What's going on? £8 billion is being raised by the freezes to thresholds for employer NI, which in time should feed through into lower pay levels for employees. And there is a big group of losers: pensioners, who are already exempt from NI but affected by freezes to Income Tax thresholds. All 8 million taxpaying pensioners will see their taxes increase, by an average of £1,000 – an £8 billion collective hit. This approach is justified with tax cuts focused on working-age employees and the self-employed, who currently pay higher rates of tax than pensioners or landlords, but it is a staggering turnaround from the approach of Conservative governments since 2010, who have generally focused support on pensioners.

This general change of approach this Parliament can also be seen when we look at all tax and benefit measures announced during it. Policy boosts the incomes of adults aged under 45 by £590 despite the significant tax rises, while losses for those aged over 65 average £770 per household. We see a similar change in approach when it comes to the impact across the household income distribution. By 2027-28, households in the bottom fifth of the income distribution are set to gain by £840 on average, largely thanks to benefit changes announced earlier this Parliament, typical households are set to gain £420 a year on average, while households in the top fifth of the income distribution will lose out by an average of £1,500 annually, as they see the biggest tax rises.

Those tax rises mean this will be the greatest tax-raising Parliament since the Second World War, with tax relative to GDP rising from 33.1 per cent in 2019-20 to 36.5 per cent in 2024-25. A highly unusual £19 billion of tax rises already announced to come into effect after the election mean the tax take is set to rise further to 37.1 per cent in 2028-29 (the highest since 1948) with the rise since 2019-20 amounting to £3,900 per household.

Further tax rises are not all that is coming after the election. Even with loose fiscal rules, the tax cuts announced by Jeremy Hunt are only affordable by pencilling in major spending cuts to come. Real per-capita day-to-day spending for unprotected departments is set to fall by 13 per cent between 2024-25 and 2028-29 – equivalent to cuts of £19 billion and amounting to a plan to repeat three-quarters (71 per cent) of the cuts inflicted on these departments in the first austerity parliament (2010-2015). The idea that such cuts can be delivered in the face of already faltering public services is a fiscal fiction. More plausible, but deeply undesirable and damaging for growth, are plans to cut Public Sector Net Investment from 2.5 per cent today to 1.7 per cent of GDP by 2028-29. This is a cut of a third, equivalent to a £26 billion decline in cash terms.

Budgets are always a big day for Westminster, but the big picture for Britain has not changed at all. This remains a country where taxes are heading up not down, and one where incomes are stagnating: they are set to remain below their level at the last general election when voters return to the polls, the first time this has happened on record. Big tax cuts may or may not affect the outcome of that election, but the task for whoever wins is huge. Not only to wrestle with implausible spending cuts, but to restart sustained economic growth – the only route to ending Britain's stagnation.

The Chancellor has doubled down on his pre-election strategy

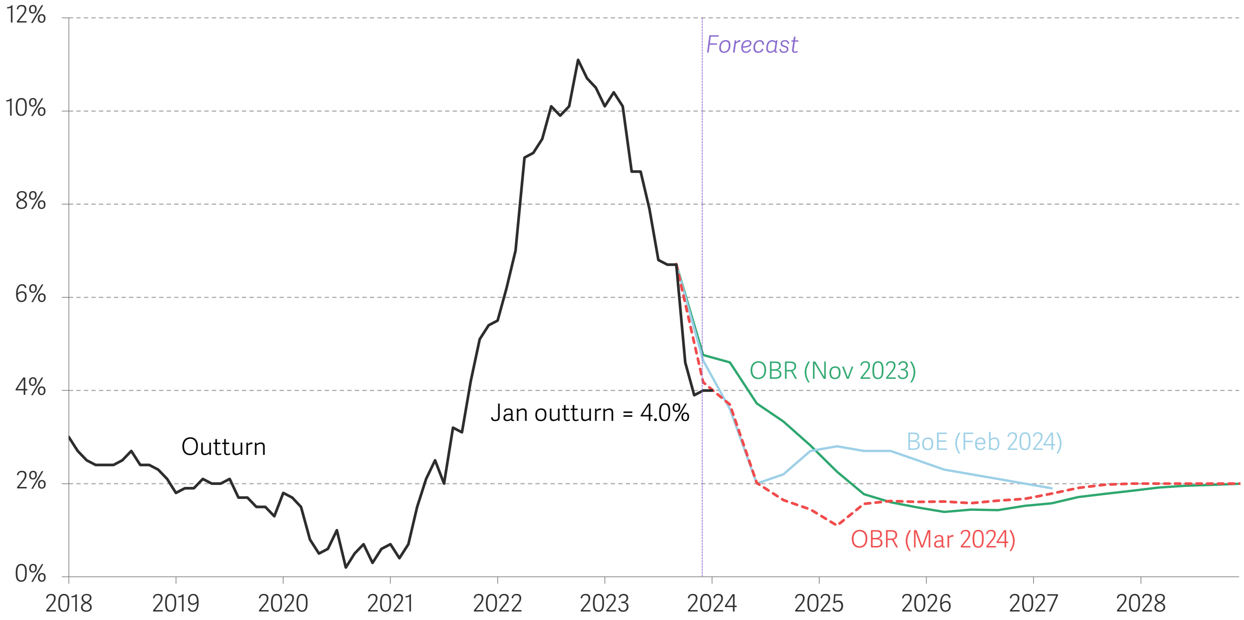
In what is almost certain to be the final fiscal event ahead of an election later this year, the Chancellor repeated his offering from the 2023 Autumn Statement by announcing more National Insurance rate cuts. He was less fortunate with economic forecasts this time, however, which only offered tax-cutting help in the short-term, meaning he chose to raise other taxes and borrow more to fund his permanent giveaways. But with tax rises already planned for after the election and undeliverable public-spending cuts also pencilled in, this Budget comes with a sting in the tail. To make matters worse, all this has left the Chancellor with alarmingly thin fiscal buffers in the face of a highly uncertain outlook. All this amounts to a troubling inheritance for whichever party wins the next election. In this briefing note, we put the Budget policy decisions in context, discussing how the economic outlook has changed, what that means for the public finances, and how the policy decisions taken will affect living standards.

The OBR calls an end to high inflation, but an unchanged real-economy forecast provides little help to the Chancellor

The main economic news since the OBR's last forecast – only a little over three months ago – is that inflation has fallen much faster than expected (Figure 1). CPI inflation is now expected to return to its 2 per cent target in Q2 2024, and remains below target until 2027. This is strikingly different from the Bank of England's February forecast, with the OBR signalling an end to high inflation while the Bank continues to worry about how long high price rises could linger. Lower inflation means better news on real wages too: the OBR now thinks average real wages will be 1 per cent higher (equivalent to £327 per year) at the end of 2024 than previously forecast.

FIGURE 1: **There is good news in the form of faster-than-expected inflation falls**

Outturn and forecasts for CPI inflation from the OBR and Bank of England: UK



SOURCE: OBR, Economic and Fiscal Outlook, various; Bank of England, Monetary Policy Report, February 2024; ONS, Consumer Price Inflation.

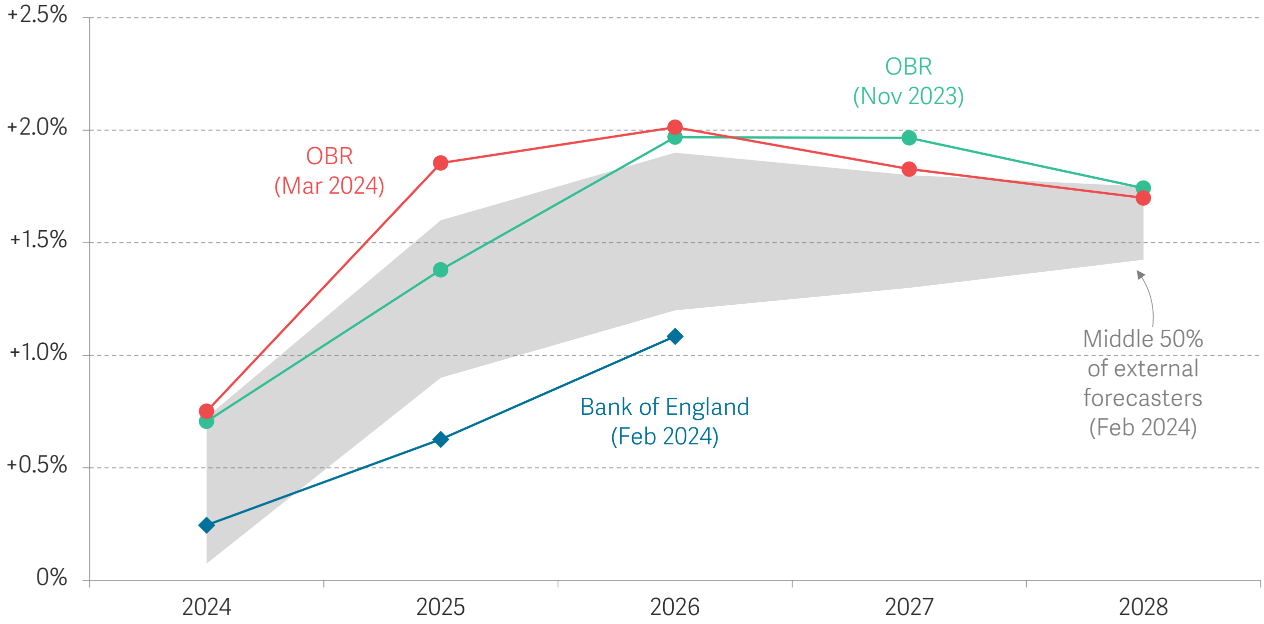
Lower inflation and wage growth have also been accompanied by falling interest rates on government debt, as financial markets expect the Bank of England to cut rates sooner. Market expectations for the level of Bank Rate in 2028-29 are around three-quarters of a per cent lower than expected back in November.

The OBR's real GDP forecast is little changed and remains more optimistic than other forecasters

The OBR's forecast for growth is stronger than most private-sector forecasters (the grey area in Figure 2) but the contrast is even starker when compared to the Bank of England. While the Bank of England forecasts cumulative GDP growth of 2 per cent between 2023 and 2026, the OBR expects 4.7 per cent. This is a very large difference, especially at a time when the OBR faces criticism for not being sufficiently optimistic about the UK economy.

FIGURE 2: **The OBR's latest growth forecasts are more optimistic than most**

Forecasts for annual real GDP growth: UK



NOTES: External forecasters are those collated by HM Treasury. In 2024 and 2025, the swathes shown only include forecasts made within three months of the relevant forecast iteration. For later years, swathes include all forecasts.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Forecasts for the UK Economy, February 2024; Bank of England, Monetary Policy Report, February 2024.

With a much-improved inflation outlook, along with recovering GDP growth, 2024 should feel a year in which the economy has turned something of a corner. However, this year would not be an impressive one by historical standards, and comes on the back of a long period of poor economic performance. Box 1 puts the economic record of the past 14 years in a larger historical context.

BOX 1: **The economic record since 2010 is one of stagnation in growth and living standards**

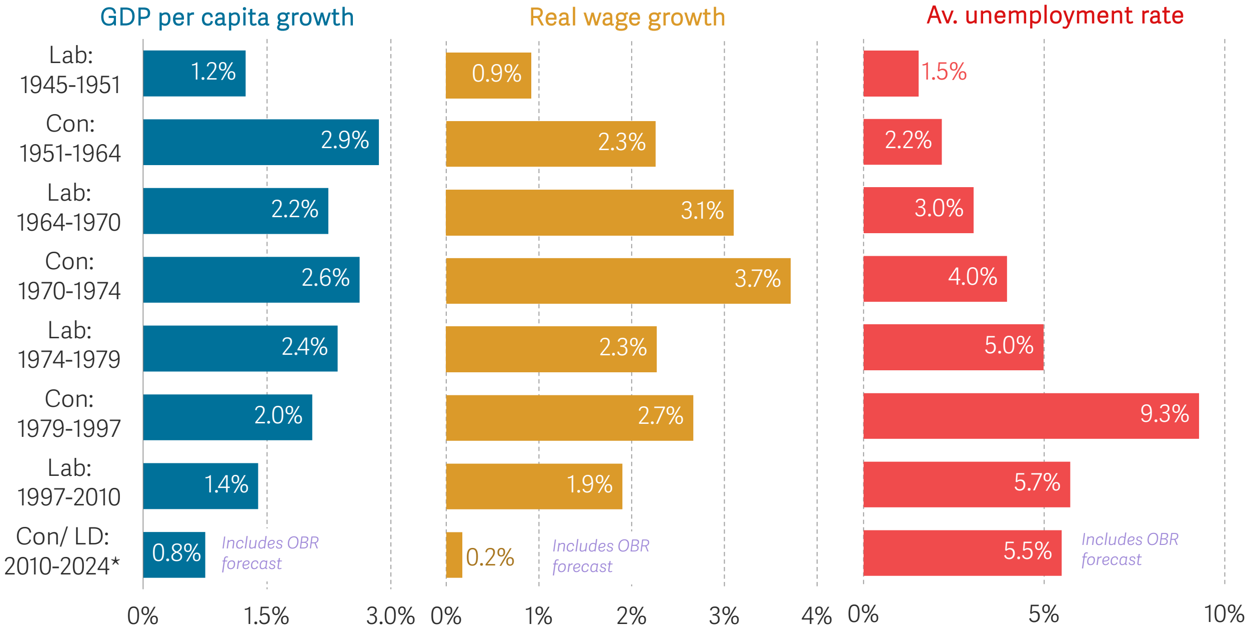
While 2024 is forecast to be something of a 'turnaround' compared to recent crisis-hit years, the overall picture in this election year is one of an economy that is not fast growing, in keeping with the economic record of the past 14 years.

If the election is held at the end of this year, the period since 2010 will have seen GDP per capita grow by 0.8 per cent per year, and average wages by just 0.2 per cent per year in real terms. On both measures, this would be the slowest growth of any party's period in office since the Second World War (Figure 3).

The main bright spot since 2010 has been unemployment, which reached its lowest quarterly rate in 50 years in 2023 Q4 (3.8 per cent). Although unemployment is set to rise this year, the average rate during the Conservatives' current period in office will have averaged a fairly modest 5.4 per cent.

FIGURE 3: **Growth has been slower over the past 14 years than any other period of party rule in modern UK history**

Annualised change in GDP per capita and real wages, and average unemployment rate, from start to end of party's period in office: UK

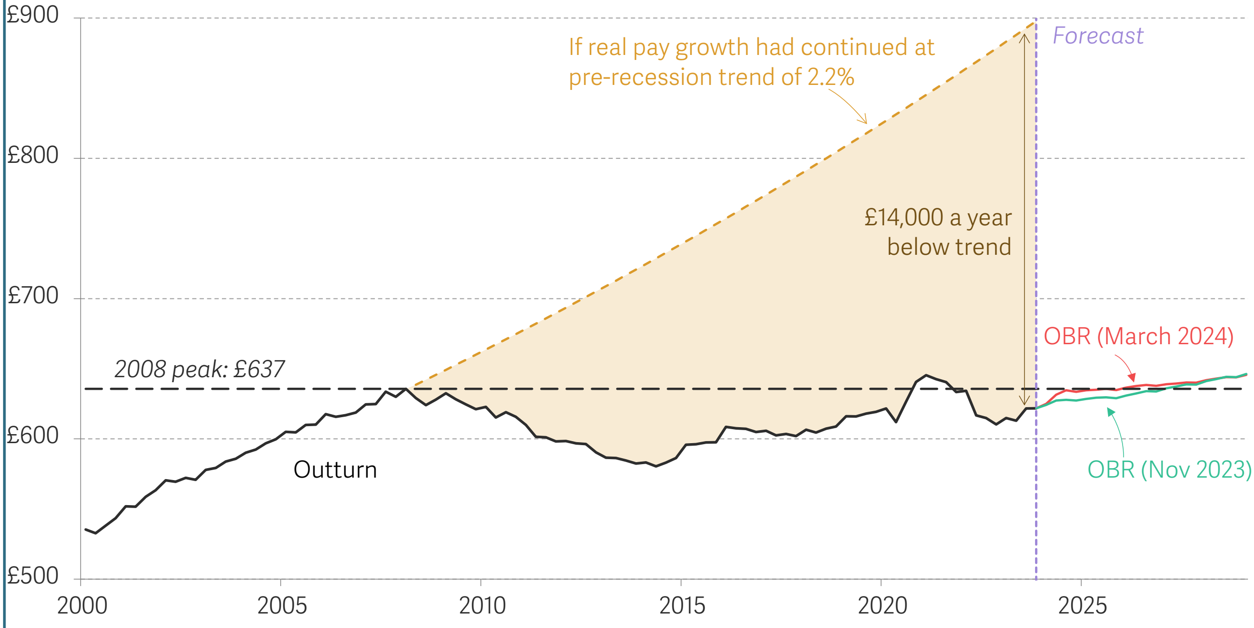


NOTES: Averages are based on calendar year data, including the years in which each party entered and left office.
SOURCE: RF analysis of Bank of England, Millennium of Macroeconomic Data; ONS, Labour Market Statistics, Mid-year Population Estimates, National Accounts; OBR, Economic and Fiscal Outlook, March 2024.

This stagnation is particularly stark in the context of real wages. Had real wages kept growing at their pre-financial crisis pace, the average worker in 2023 would have been around £14,000 better off (Figure 4). The return to real wage growth this year (and the slightly improved outlook in the next couple of years) is welcome. Nevertheless, it will still take until 2026 for real wages to return to their 2008 level.

FIGURE 4: **Lower inflation means the real wage outlook has improved, but it will still take until 2026 for real wages return to their 2008 level**

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

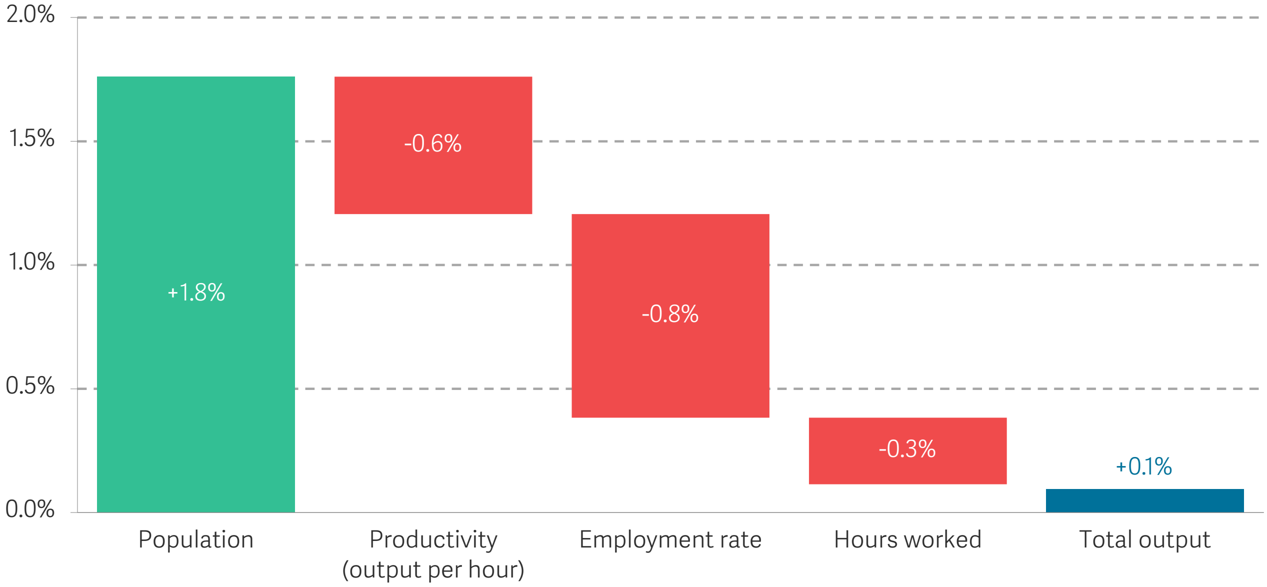


NOTES: Deflated to 2023-24 prices using CPI. Forecasts are calculated from successive OBR forecasts of average earnings and CPI, and indexed to the latest Average Weekly Earnings (regular pay) outturn available at the time of the relevant Economic and Fiscal Outlook. The OBR's CPI forecasts have been seasonally adjusted. Average Weekly Earnings data relates to GB only.
SOURCE: RF analysis of ONS, Labour market statistics; ONS, Consumer price inflation; OBR, Economic and Fiscal Outlook, various.

Looking further ahead, it is striking that, despite news that the population is growing more quickly than previously thought, the OBR has not upgraded growth in the medium term. Real GDP in 2028-29 is just 0.1 per cent larger than previously forecast. The ONS' new population estimates (which raised medium-term annual net migration projections from 245,000 to 325,000) imply the economy will be 1.8 per cent larger in real terms by 2028-29. But the OBR has taken a number of judgements that offset this news. First, as a higher estimated population today mechanically lowers the estimated level of current productivity, it has marked down its estimate of the level of productivity throughout the forecast. Second, there are further offsets from lower labour force participation and fewer average hours worked. These latter changes are informed by new ONS Labour Force Survey (LFS) estimates that show higher levels of sickness-related inactivity, which are only partially offset by a boost to labour supply from the impact of measures announced in the Budget. (It is worth noting, however, that problems with LFS data collection mean these judgements are more uncertain than usual.)

FIGURE 5: **In the OBR's long-term forecast, higher-than-expected population growth is offset by lower-than-expected participation and hours worked**

Change in level of GDP in 2028-29 between November 2023 and March 2024 OBR forecasts, by component: UK

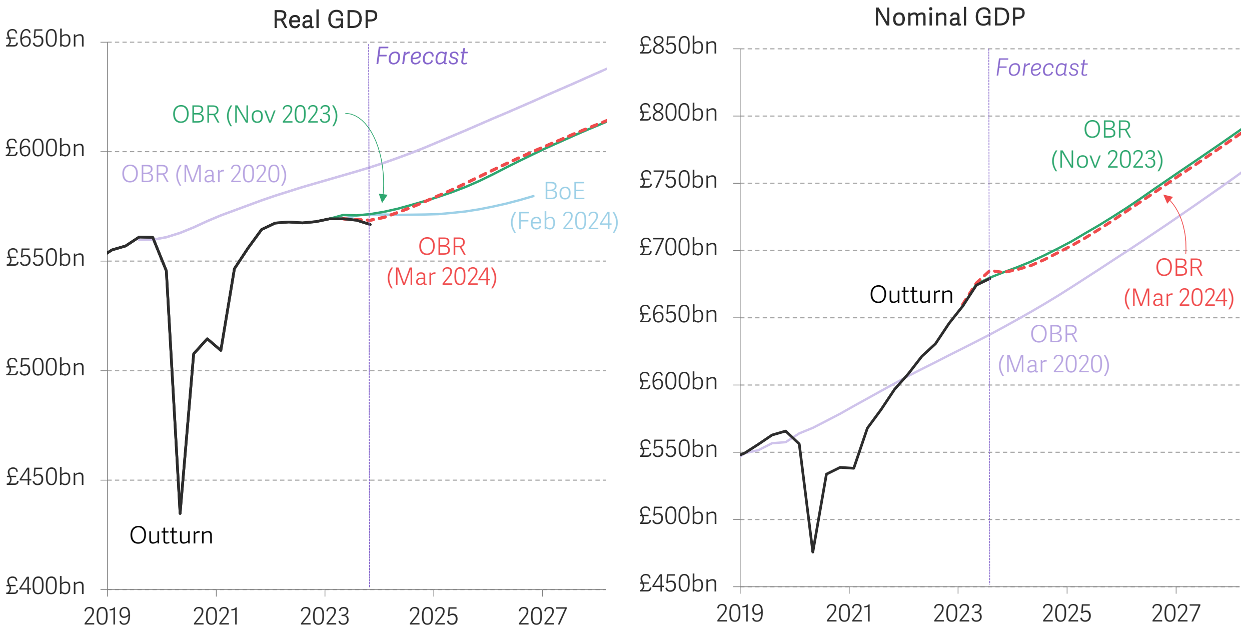


Note: Changes in the forecast include the effect of changes in: the assumed starting point in each component (reflecting new outturn data); the assumed growth rate; the OBR's updated view on the impact of existing policy measures (such as frozen tax thresholds, which the OBR think reduce labour supply); and the OBR's view on the impact of newly announced policy measures (such as the cut to National Insurance rates, which the OBR think will boost labour supply).
SOURCE: OBR, Economic and Fiscal Outlook, various.

Overall, the forecast for the economy is little changed from November. Although real GDP at the end of the forecast period is slightly higher, lower-than-expected inflation means nominal GDP is expected to be 0.3 per cent lower (Figure 6). This combination of lower inflation and a slightly smaller cash economy is one that will tend to put downward pressure on tax receipts, which in turn will increase borrowing, as we discuss in the next section.

FIGURE 6: **Falls in inflation have left the OBR forecasting a slightly smaller economy in cash terms**

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



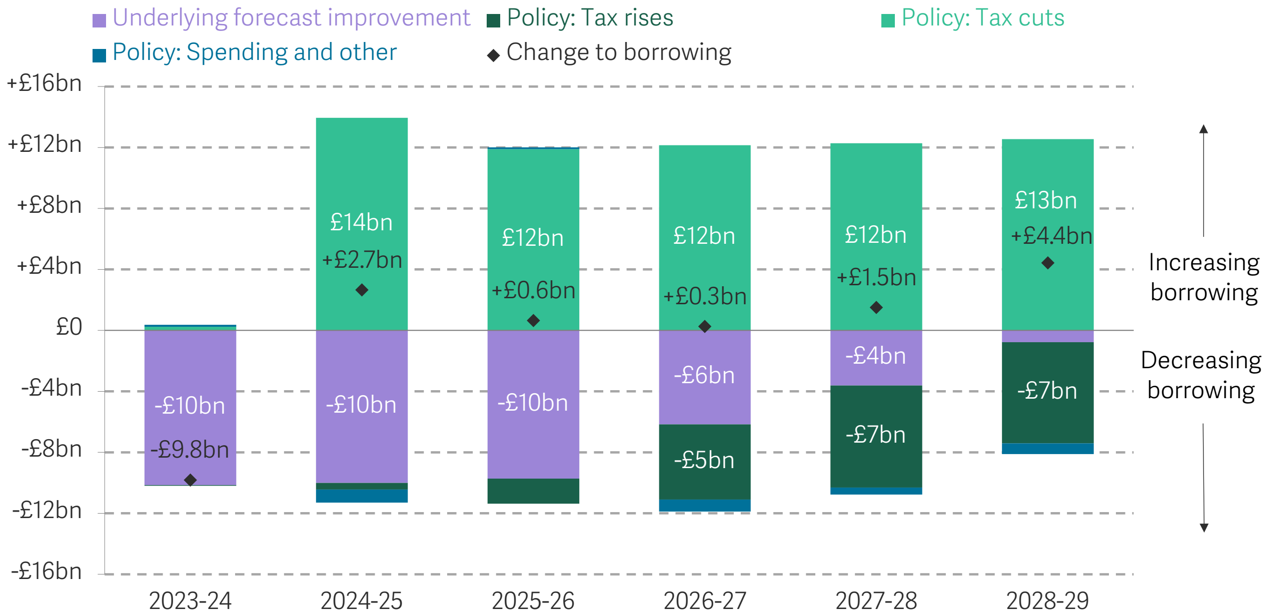
NOTES: All real measures are rebased and re-referenced to 2019.
SOURCE: RF analysis of ONS, National Accounts; Bank of England, Monetary Policy Report, February 2024; OBR, Economic and Fiscal Outlook, various.

In the medium term, tax cuts have been funded by raising revenue elsewhere and borrowing more, leaving fiscal headroom alarmingly low

The little-changed economy forecast, along with somewhat lower interest rates, means a modest improvement in the fiscal forecast, concentrated in the near term. Lower rates reduce debt interest costs by an average of £14 billion a year. But, by the end of the forecast, that windfall is offset by lower tax receipts than projected in November as a result of lower inflation and a smaller cash economy. So, while the Chancellor has been delivered a £30 billion cumulative windfall over the next five years (the purple bars in Figure 7), this declines over time to just £0.8 billion in the final year of the forecast.

FIGURE 7: **The Chancellor has spent £65 billion on tax cuts over the next five years, around a third of which has been funded by tax-raising policies**

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



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

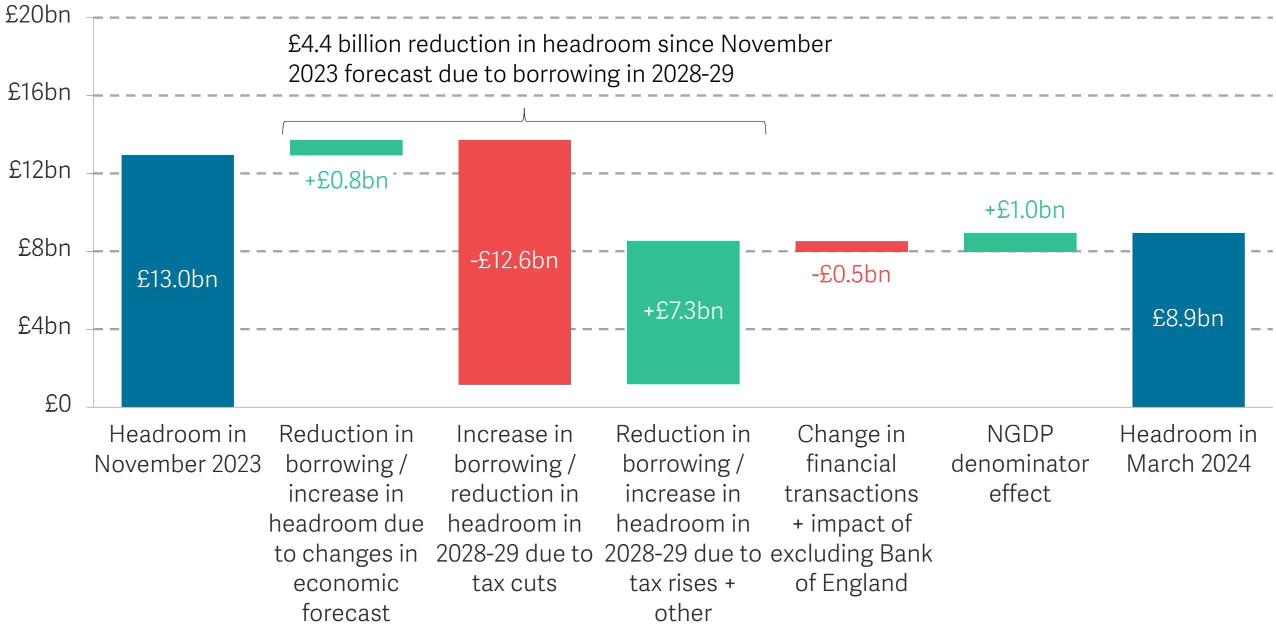
Despite this relatively modest forecast change, the Chancellor has gone ahead with significant tax cuts, which cost between £12 and 14 billion in each year of the forecast (the light green bars in Figure 7). In the short term, these are offset by the forecast improvements mentioned above. But, as these improvements decline over time, the Chancellor has chosen to raise other taxes to fund his pre-election giveaways: tax-raising policies bring in £7 billion a year by the end of the forecast (the dark green bars in Figure 7).

This leaves around a third of the Chancellor's tax cuts, which cost a cumulative near £65 billion over the next five years, offset by other tax rises. Additional borrowing therefore takes most of the strain. Not only has he chosen to spend the £30 billion windfall received from changes in the underlying economy forecast, Jeremy Hunt has to borrow a further £10 billion in total over the next five years.

All this has left the Chancellor's fiscal buffers alarmingly thin. Headroom against the target to reduce debt (excluding the Bank of England) by the end of the forecast period has fallen by £4 billion since November, to £8.9 billion. This is because borrowing in 2028-29 is £4.4 billion higher, due to £13.1 billion of tax cuts offset by £6.6 billion of tax rises and £1 billion of underlying forecast improvements, alongside small changes in financial transactions and from GDP growth (see Figure 8).

FIGURE 8: **Headroom has reduced by £4 billion since the OBR's November forecast**

Improvement in headroom against public sector net debt (excluding the Bank of England) fiscal rule, by component: UK, 2028-29



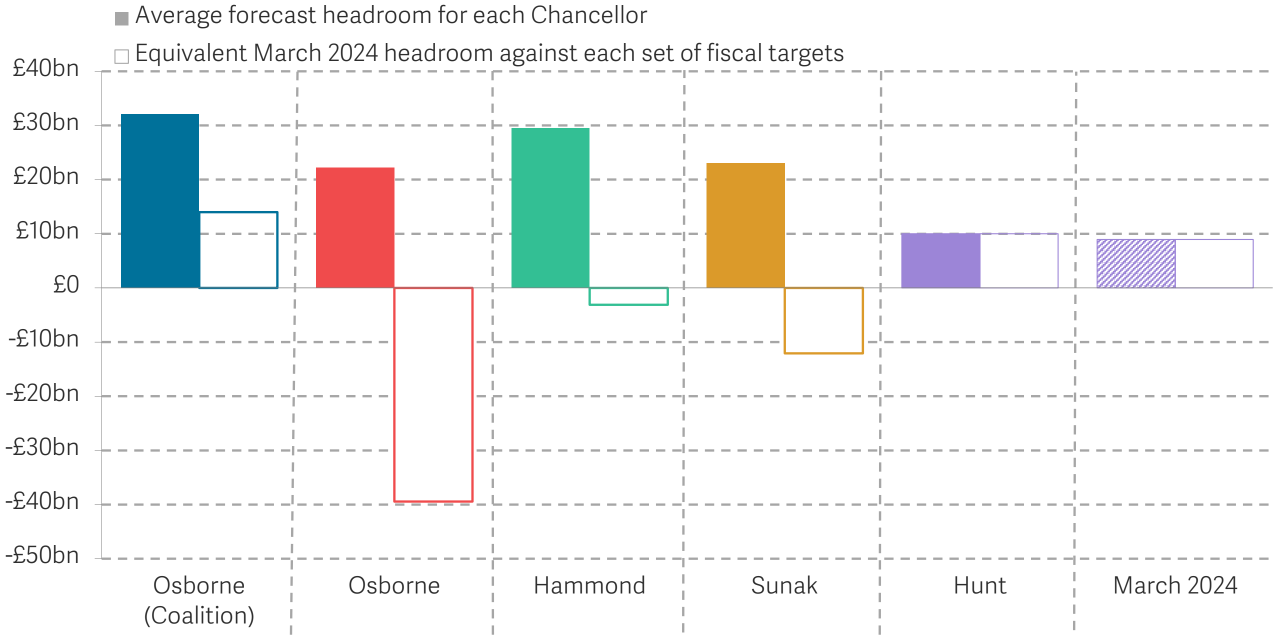
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March 2024.

The average headroom held by previous Chancellors against their fiscal targets is nearly £29 billion, more than three times the Chancellor's current headroom. And this is not because the current set of fiscal rules are particularly tight or much more difficult to meet than those held by previous Chancellors: looking at current forecasts, this Budget would have violated each set of fiscal rules in place since 2015 (when the target was to fund day-to-day spending through tax receipts – see Figure 9). Having only a small amount of headroom against a fiscal rule, particularly one which targets a single year, means the Government's plans are highly vulnerable to future changes in the forecast.

Such wafer-thin fiscal buffers mean that it doesn't take much for the Government's fiscal targets to be broken. For example, correcting for the 'fiscal illusion' that requires the OBR to assume that Fuel Duty will rise across the forecast period (a tax which has been frozen in nominal terms since 2011) would wipe out more than half (£4.8 billion) of current headroom.

FIGURE 9: **This headroom is low by historical standards, and against a rule that is looser than many previous Chancellors'**

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



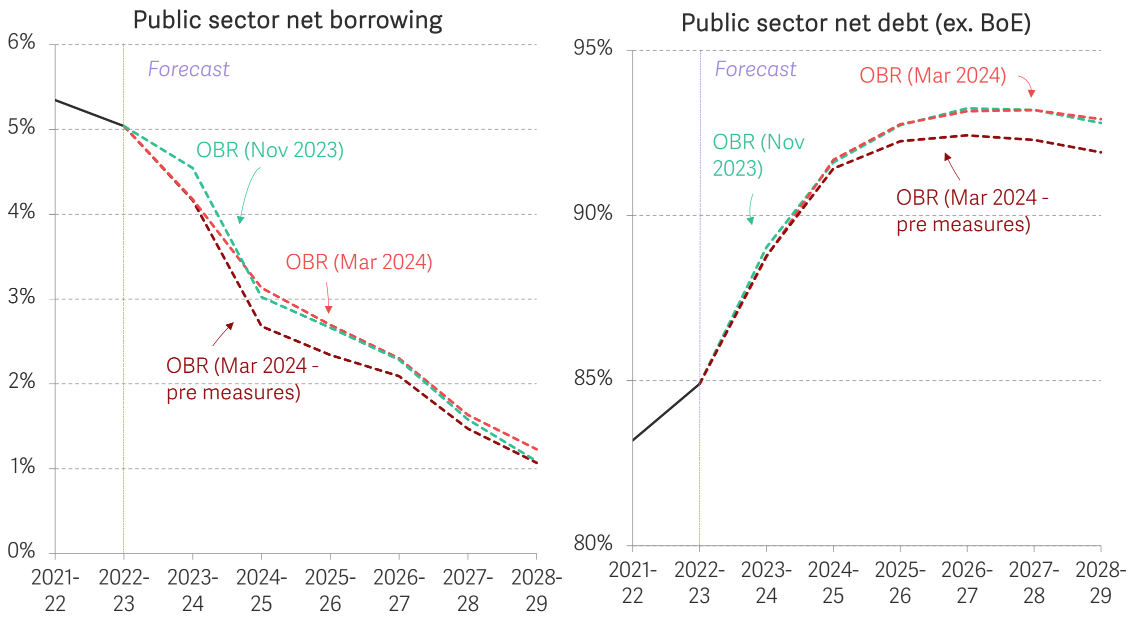
NOTES: The equivalent March 2024 headroom measures compare to the following past fiscal targets: 'Osborne (Coalition)' fiscal targets relate to balancing the cyclically-adjusted current deficit in five years; 'Osborne' relates to balancing public sector net borrowing in five years (original rule required 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.

Why does this matter? Looking at the Government's overall fiscal position, borrowing as a proportion of GDP remains relatively low by the end of the forecast, but high debt interest costs and sluggish growth leave the debt stock as a proportion of GDP falling only very marginally (Figure 10). Public sector net debt excluding the Bank of England is set to peak at 93.2 per cent of GDP in 2027-28, before falling slightly to 92.9 per cent of GDP by the end of the forecast. This means that debt is rising relative to where it is today and is not on a convincing downward path by the end of the forecast.[1]

1 As we have argued previously, this is not sufficient to stop debt rising over time in the face of periodic downturns. See: S Pittaway & J Smith, Built to last: Towards a sustainable macroeconomic policy framework for the UK, Resolution Foundation, October 2023.

FIGURE 10: **Borrowing is set to fall over the forecast, but debt remains stubbornly high**

Public sector net borrowing (left panel) and public sector net debt excluding the Bank of England (right panel) as a proportion of GDP, outturn and successive forecasts: UK



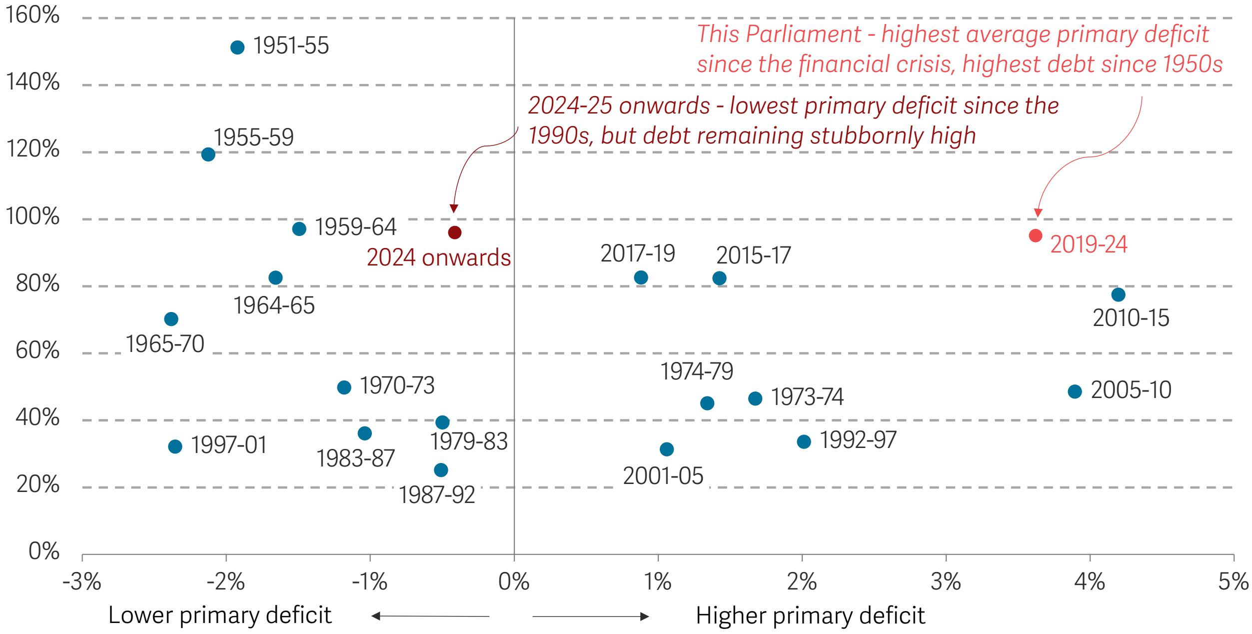
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March 2024.

These forecasts make clear that the UK has a debt problem rather than a borrowing problem. Borrowing (excluding debt interest, also known as the primary deficit) is relatively low, but overall debt remains higher by historical standards. As a result of the pandemic and cost of living crisis shocks of recent years, the debt-to-GDP ratio has increased to its highest level since the 1960s.

Stepping back, then, the key pressure facing the public finances over the coming years is not one of high underlying borrowing (from 2024-25, the primary deficit is set to be the lowest it has been since the millennium), but of high levels of debt, and the high costs associated with servicing it. Debt interest costs are set to average 3.3 per cent of GDP over the next five years, up from an average of 2.1 per cent of GDP during the 2010s. This, plus a sluggish growth forecast, and high costs associated with student loans and transfers relating to quantitative easing, make it necessary to run a materially tighter fiscal policy if debt is to fall as a share of GDP. Whereas Chancellors in the 2010s could borrow around 1.6 per cent of GDP (excluding debt interest) without debt rising, an average primary surplus of 1.3 per cent of GDP will need to be run over the next five years for debt to fall. By depleting the already slim headroom the Chancellor had against his fiscal rules, this Budget's policy package of large tax cuts has made the challenge of actually having debt on a falling path in the coming years even more difficult.

FIGURE 11: **Underlying borrowing will need to return to historic lows for debt to fall as a share of GDP**

Average primary deficit and public sector net debt as a percentage of GDP, by Parliament: UK, 1951-52 to 2028-29



NOTES: Labels refer to the first and last fiscal years of a Parliament, and '2024-25 onwards' refers to the years from 2024-25 until the end of the OBR's forecast horizon (2028-29).
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March 2024.

Given the limited headroom, the Chancellor has had to raise some taxes in order to cut others

As we said above, with little improvement in the underlying fiscal forecast, the Chancellor announced tax rises of £6.6 billion in 2028-29 in order to help him fund £13.1 billion worth of cuts to other taxes. Those increases are made up of a one-year extension to the Energy Profits Levy, abolishing preferential tax treatment of second homes used for holiday rentals, abolishing Multiple Dwellings Relief, an increase in Air Passenger Duty on business class air fares, changes to taxation of non-domiciled individuals, a one-off increase in tobacco duty, and a new duty introduced on vaping products.

Of these tax rises, the largest single revenue-raising measure was the change in the tax treatment on non-domiciled individuals, which raises £2.7 billion in 2028-29. Under the current system, non-domiciled UK residents may choose to be taxed on the remittance basis, meaning that any foreign income and gains will only be taxed if they are brought, or remitted, into the UK.[2] However, the Chancellor announced that, from April 2025, the remittance basis of taxation will be replaced with a simpler residence-based regime, where individuals that opt into the new regime will not pay UK tax on any foreign income and gains arising in their first four years of tax residence. After this period, they will pay UK tax on their worldwide income and gains.

The OBR notes that estimating the number of non-domiciled individuals is challenging due to individuals opting in and out of the remittance basis on a year-by-year basis. However, it is estimated that, under the new regime, the tax base consists of 5,500 individuals who would have used the remittance basis but are ineligible for the four-year regime. Abolishing the current regime will impact a relatively small number of individuals who are likely to have very large foreign income or gains; for example, non-domiciled UK residents would need to have overseas income of at least £133,333, or gains of at least £214,286, for the £60,000 charge to be worthwhile.[3]

The extension of the Energy Profits Levy for a further year is also a relatively large revenue raiser, generating an additional £0.4 billion in 2027-28 and £1.2 billion in 2028-29. However, overall receipts are down £2.5 billion since November as a result of falling oil and gas prices. Finally, the Government also announced measures that would simplify tax administration and tackle tax non-compliance by making further investments, including in HM Revenue and Customs' capacity to collect tax debts. These measures are forecast to raise over £1 billion of tax revenue in 2028-29.

These come alongside cuts to National Insurance and Fuel Duty and an extension of Child Benefit

The Chancellor went through the usual ritual of cancelling this year's Fuel Duty uprating (costing £1 billion by 2028-29) and postponing the end of the 'temporary' 5p cut by another year. He also froze alcohol duties.

But clearly the Budget's most significant tax announcement is that basic National Insurance (NI) rates will fall by 2p. The employee rate, having just fallen from 12 per cent to 10 per cent in January, will be further lowered to 8 per cent in April, and the self-employed rate, having just fallen from 9 per cent to 8 per cent, will now drop to 6 per cent (in addition to the abolition of their small Class 2 charge). Altogether, this is now a £21 billion a year tax cut. The 4p cut in the main rate of NI for employees is worth up to £1,500

2 The remittance basis applies automatically to those who have unremitted foreign income or gains of less than £2,000 in a tax year, and to those that pay an annual 'remittance basis charge'. This charge is £30,000 for non-domiciled individuals who have been resident in the UK for at least seven of the previous nine tax years, rising to £60,000 for non-domiciled individuals who have been resident in the UK for at least 12 of the previous 14 tax years. The remittance basis is not available to individuals who have been UK residents for at least 15 of the previous 20 tax years; these individuals are deemed domiciled, so they pay UK tax on both their UK and foreign income and gains for the tax year in which they arise. For more information see: HM Revenue & Customs, Guidance: Remittance basis changes, January 2018.

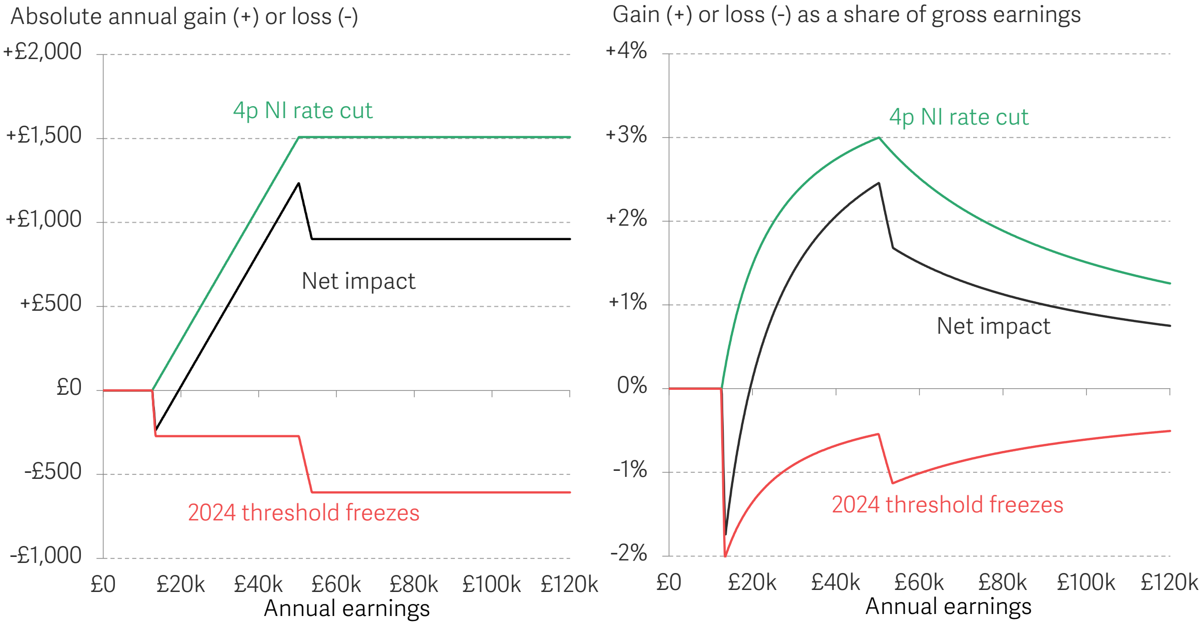
3 E Agyemang, Stay or go? UK's non-doms prepare for scrapping of tax status, Financial Times, November 2023.

a year (and some couples will therefore get £3,000 a year), but only higher earners beyond £50,270 will receive that full benefit – see Figure 12. This will take the basic marginal NI rate for employees to its lowest since the 1980s, reversing the several increases that have happened since then.[4]

However, the NI rate cuts need to be considered in combination with the ongoing freezes to tax thresholds. If we consider this April's freeze alongside the two National Insurance cuts, an estimated 79 per cent of employees will be net winners, but those earning £19,000 or less (typically part-time workers) would have been better off with normal tax threshold uprating than with these tax rate cuts. Among taxpayers, gains will average £450, with the largest net tax cuts going to those earning £50,000 (who will gain £1,200).

FIGURE 12: **A 4p cut in National Insurance outweighs the impact of April 2024's threshold freezes for most employees, but the lowest earners are left worse off**

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



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.

Alongside the NI changes this April, the Chancellor also spent £0.5 billion to reform the High Income Child Benefit Charge (HICBC) (the way that Child Benefit is withdrawn from better-off families). As we discuss in Box 2, this reduces the instances of parents facing very high marginal deduction rates.

4 The rate was 7.75 per cent in 1981-82. From 1985 to 1989 the top rate was 9 per cent but some workers paid less.

BOX 2: The Chancellor spent £500 million to reform the High Income Child Benefit Charge

The way in which Child Benefit is withdrawn is widely seen as being unfair and inefficient. Until recent Budget announcements, Child Benefit was withdrawn via the High Income Child Benefit Charge (HICBC) for families where at least one person has a gross income above £50,000. Child Benefit was completely offset by the HICBC for families where one person earned more than £60,000, leading to a situation where those with incomes between £50,000 and £60,000 faced high marginal deduction rates of over 60 per cent.[5]

In the Budget, the Chancellor amended this policy to increase the Child Benefit withdrawal earnings band from £50,000-£60,000 to £60,000-£80,000 in April 2024. As Figure 13 shows, this goes some way to remove the very high marginal deduction rates that families with children face (by halving the rate at which Child Benefit is withdrawn), and removed the extreme cliff-edge at £50,000. For example, before the Budget, a single parent with two children faced a marginal deduction rate that jumped from 30 per cent to 65 per cent at £50,000, as they were affected by both the higher rate of Income Tax and the HICBC at this level of earnings. After this Budget, the picture looks smoother with marginal deduction rates for families with children rising more gradually, at £50,000 (when the Higher Rate of Income Tax hits) and then again at £60,000 (as the HICBC takes effect).

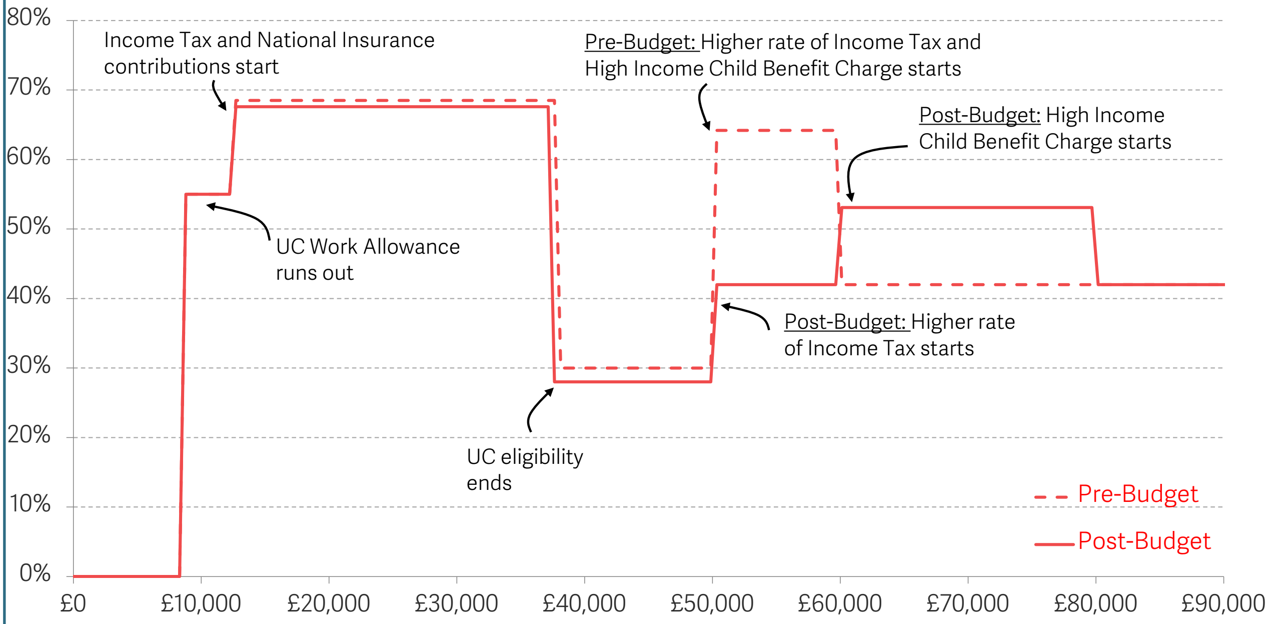
The Treasury expect this change to benefit around 485,000 families (who will either become exempt from the HICBC charge altogether, or face a lower marginal deduction rate), with these families estimated to gain an average of £1,260 in Child Benefit in 2024-25. For comparison, the annual value of Child Benefit in 2024-25 is £1,331 for families with one child and £2,213 for families with two children.

Finally, the Chancellor also announced a longer-term ambition to transform the way in which Child Benefit is administered by moving it to a system which bases Child Benefit on household, rather than individual, income.

5 For a throughout discussion of the High Income Child Benefit Charge and the high marginal deduction rates faced by some families, see: M Brewer, K Handscomb & G Kelly, Inconsistent Incentives: How the overlap between Universal Credit and the High Income Child Benefit Charge limits work incentives, Resolution Foundation, December 2022.

FIGURE 13: **By reforming the High Income Child Benefit Charge, the Chancellor has lowered marginal deduction rates for high earners**

Marginal deduction rate by gross annual income, for a single parent with two children: UK excluding Scotland, 2024-25



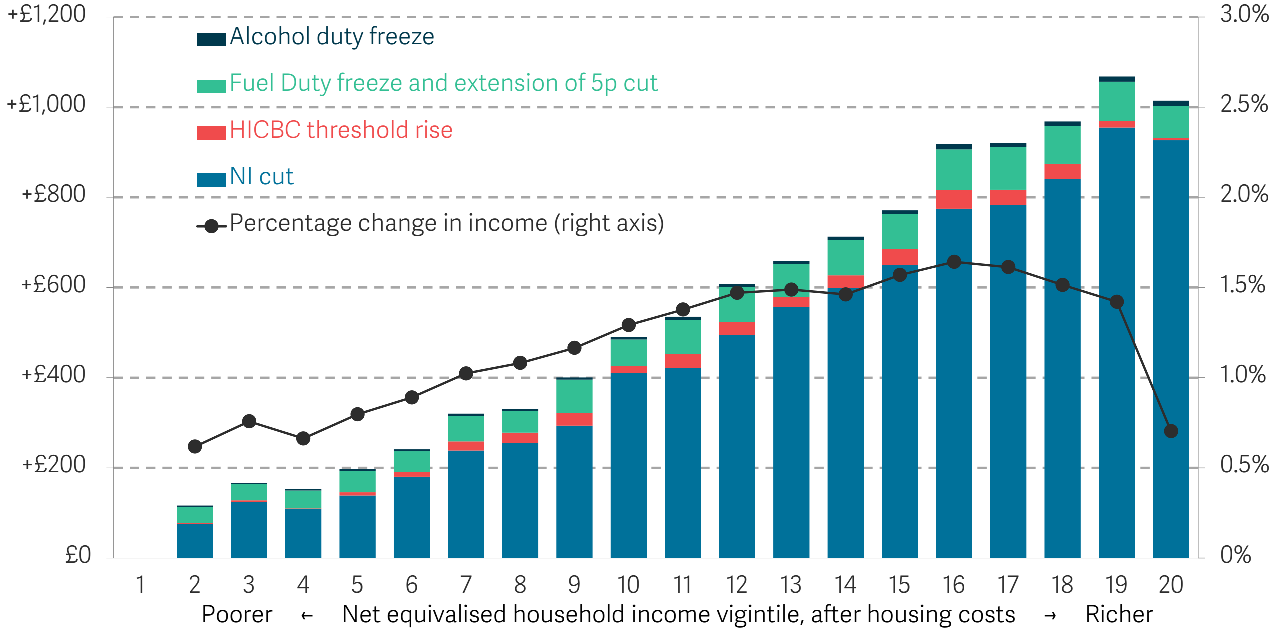
NOTES: Chart shows marginal deduction rates for a single parent with two children, not receiving support for housing costs through Universal Credit. Student loan repayments not included. 'Post-Budget' changes include the 2p National Insurance cut as well as changes to the High Income Child Benefit Charge. Marginal deduction rates would be similar for a single earner in a couple.
SOURCE: RF case study model.

As Figure 14 shows, the typical household is set to gain £510 as a result of the tax cuts announced at the Budget, but the gains are skewed towards richer households, with households in the top income quintile set to gain around seven times the amount of households in the lowest income quintile (£990 versus £150).[6] These large increases in income for high-income households are driven by the National Insurance rate cuts. The National Insurance cuts benefit London and the South East the most, with Londoners gaining nearly twice as much on average (£670) from the change as households in the North East (£380). The duty freezes also benefit higher-income households the most in cash terms, albeit less starkly. Households towards the middle of the income distribution benefit the most from reforms to the HICBC.

6 The reduction in the Capital Gains Tax property rate (from 28 to 24 per cent) is not included in this distributional analysis. Although it is a tax cut, the measure is set to result in more revenue for the Exchequer, as the number of transactions increases as a result. But this is not to say that the reform is making individuals worse off.

FIGURE 14: **Policies announced in this Budget benefit middle-to-higher income households the most**

Impact of new tax and benefit policy changes announced at the Spring Budget 2024, by income vigintile: UK, 2024-25



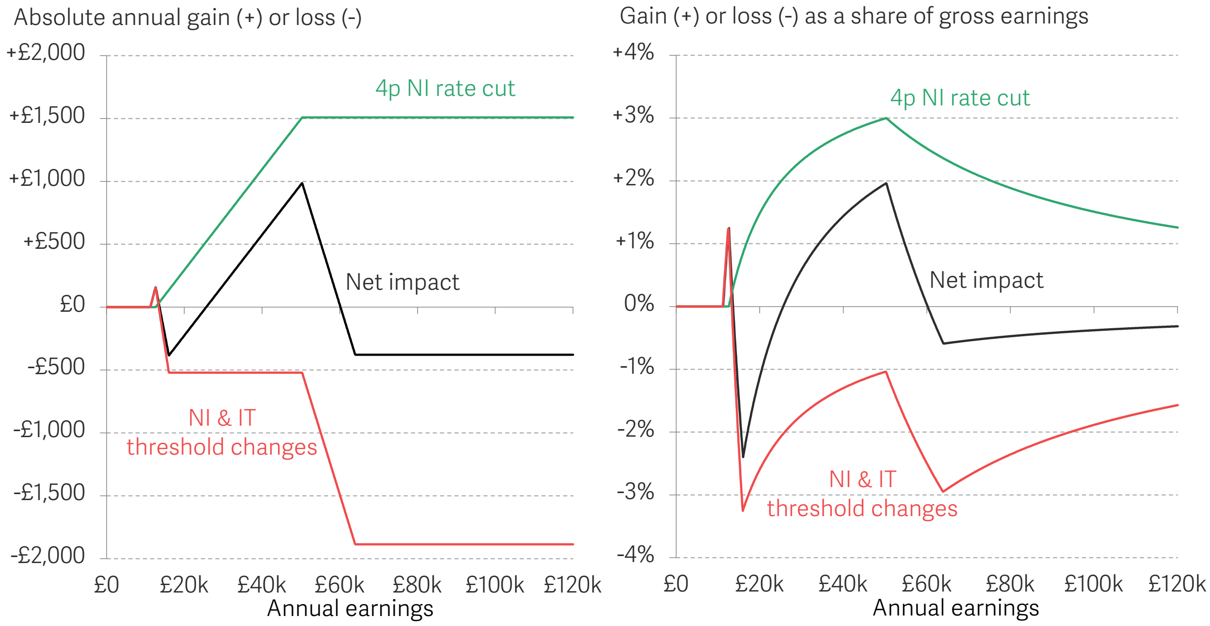
NOTES: NI cut refers to the 2p cut to National Insurance announced in the Spring Budget 2024. Fuel duty cut refers to the extension of the freeze and 5p cut to fuel duty. HICBC threshold rise refers to the increase in the thresholds for the High Income Child Benefit Charge.
SOURCE: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model; ONS, Living Costs and Food Survey; HMT, policy costings.

If we zoom out, though, to look at the combined impact of the six-year freeze to tax thresholds, the NI rate cuts and threshold increases (but excluding employer NI impacts), then the picture is more complicated. Employees in a range from around £26,000 to £60,000 will be net winners from this Parliament's changes to income tax and employee NI by 2027-28.[7] Higher and lower earning taxpaying employees will be worse off (see Figure 15).

7 If we were to assume, quite reasonably, that increases in employer NI (due to a threshold freeze) lead to reduced wages, our picture would look less positive, as shown in: IFS, Spring Budget 2024: initial IFS response, 6 March 2024 (although this also differs from our analysis by excluding the positive impact of the 2020 NI threshold rise).

FIGURE 15: **The combined impact of this Parliament's personal tax rollercoaster will leave employees below £26,000 or above £60,000 worse off, but those in between are set to gain**

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



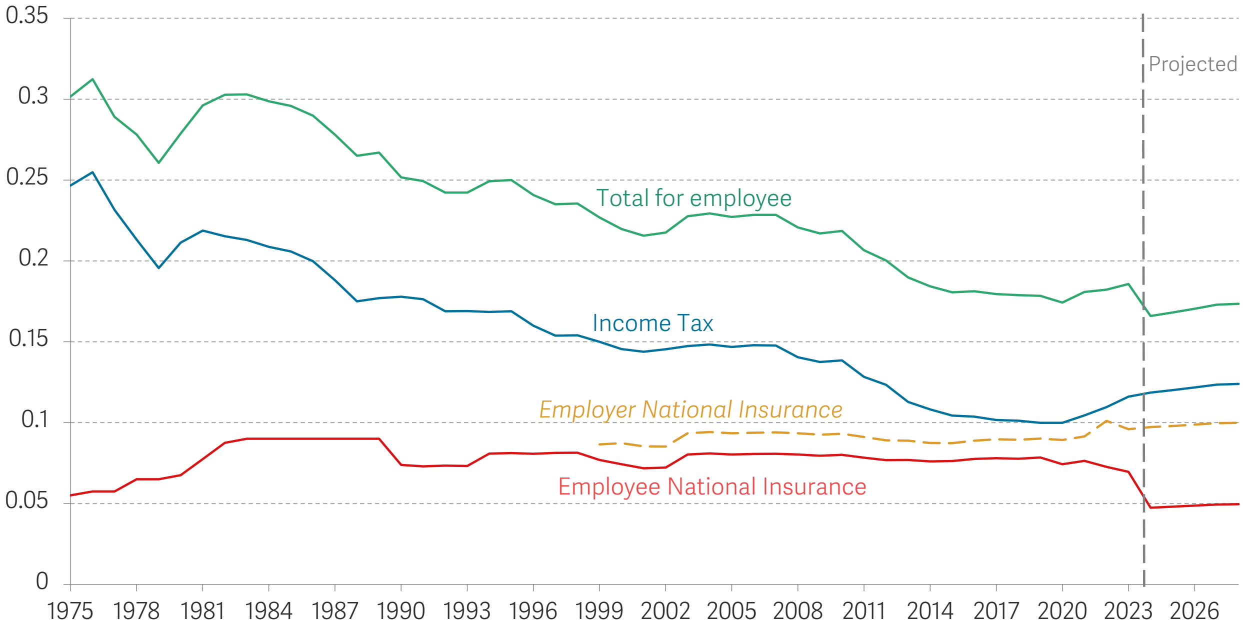
NOTES: Does not include the negative impact of employer National Insurance policies, nor Universal Credit means-testing. Precise impact of future freezes will depend on levels of inflation.
SOURCE: RF analysis, including inflation forecast from OBR, Economic and Fiscal Outlook, March 2024.

The 4p cut in NI means that a typical employee will from this April be facing a lower effective tax rate than at any time since at least 1975, as per Figure 16. Effective Income Tax rates for a median earner, on the other hand, are rising, as threshold freezes and high inflation have accelerated fiscal drag. However, even by 2027-28 the effective Income Tax rate for a typical employee is still on track to be lower than it was in 2009-10, or any year before that going back to at least 1975. And taxes for an average single worker were low by international standards even in 2022 - before any reductions in the NI rate.[8]

8 OECD, Tax wedge data.

FIGURE 16: **Despite a rising tax to GDP ratio, taxes on a typical salary are now historically low, particularly for personal National Insurance**

Effective tax rates for an employee on the median salary: UK



NOTES: For consistency, tax rates are for unmarried employees under 65 with non-volatile earnings. Based on financial years. 2022 and 2023 use the tax parameters that applied in October of those years. Scottish tax differences are not included. Employer NI figures only calculated from 1999 onwards, and non-structural employer NI tax reliefs not included.
SOURCE: RF analysis using median earnings figures from ASHE/NESPD and tax history from HMRC and IFS. Earnings projected using OBR, Economic and Fiscal Outlook, March 2024.

Combining this Parliament's policy changes, personal taxes overall are going up, partly due to pensioners paying more tax

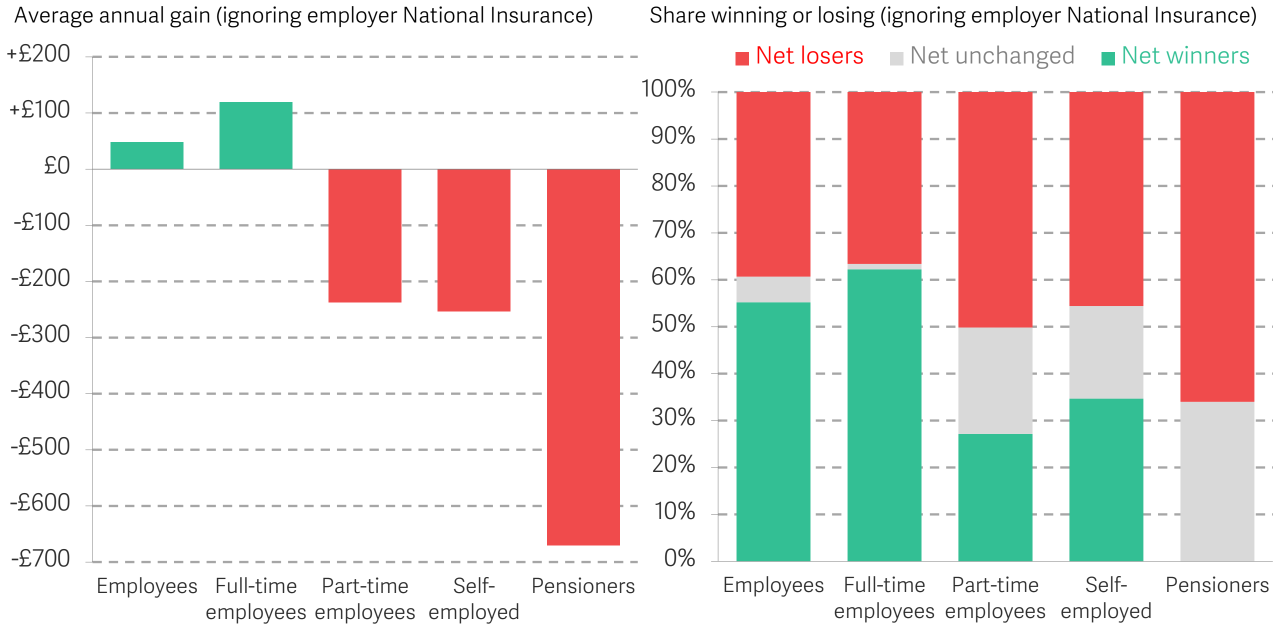
Although the £21 billion NI cut is big by any standard, it is still true that policy changes this Parliament have acted to increase personal taxes overall. By 2028-29, the additional revenue brought in through the Income Tax threshold freezes will have grown to £34 billion, and £9 billion will be raised from NI freezes. This (plus some other minor considerations) leaves a net personal tax rise, thanks to measures announced this Parliament, of £20 billion by 2028-29.

However, the pattern of gains and losses among employees from personal tax changes over this Parliament that we showed in Figure 15 turns out to be narrowly positive overall (see left panel of Figure 17), with roughly 55 per cent of employees set to be net winners (see right panel).

So where is the extra tax revenue coming from?

FIGURE 17: **A tax policy rollercoaster has created winners and losers, with pensioners among the greatest losers**

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



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.

One reason for this apparent discrepancy is that employers are paying more NI (as seen in yellow in Figure 16), due to the freezing of the starting threshold for employer NI up to and including 2027-28. In the long-run we should expect that employees will lose out from this roughly £8 billion a year tax rise, through lower pay (on the assumption that all labour taxes are eventually incident on workers, regardless of their formal incidence).

But, as Figure 17 shows, another key driver of rising personal taxes is that taxes have been increased for pensioners. Around 8 million pensioners are taxpayers, losing from freezes to Income Tax thresholds but not benefitting from NI changes (because they are already exempt from paying NI). Compared to where the personal allowance might have been in 2027-28 without freezes, basic rate pensioners will be around £700 worse off and – taking into account also the higher-rate threshold freeze – the average taxpaying pensioner will lose around £1,000. In total, policy will have increased taxes for pensioners by around £8 billion, a significant portion of the net personal tax rise.

There are good living standards and tax design arguments for this pattern of impacts by age (which are also shown on a household level in Box 3). Pensioners in general cannot be considered to be a low-income group; the triple lock has led to increases in the state pension not just in real terms but also as a fraction of average earnings; and the recent rocketing of interest rates has boosted savings income (particularly benefiting pensioners) while hitting predominantly working-age mortgagors.[9] Cutting NI rates has also closed some of the gap between different forms of income, e.g. between salaries and rental income, or between a worker aged 65 and one aged 66, as shown in Figure 18.

It is regrettable, though, that the Budget chose to cut NI for the self-employed by as much as it did for employees. There are no good reasons for self-employed earnings to be taxed lower than wages; doing so distorts the labour market. It has previously been estimated that the self-employed are essentially receiving tax relief of £6 billion relative to employees (probably bigger if the wage-reducing effects of employer NI are included).[10] As such, it would have been more welcome for the self-employed rate to have remained at 8 per cent to align it with the employee rate.

FIGURE 18: **NI rate cuts have reduced gaps in how different forms of income are taxed, though there was little technical justification for cutting the self-employed NI rate**

Basic marginal tax rates in 2024-25: UK excluding Scotland

The different treatment of pensioners and working-age employers by the NI cuts is the main drivers of the pattern of gains and losses by age when considering tax and benefit measures overall this Parliament; we discuss this more in Box 3.

9 See M Broome et al., An intergenerational audit for the UK 2023, Resolution Foundation, November 2023; A Corlett, The Living Standards Outlook – Summer 2023 Update, Resolution Foundation, September 2023.
10 HMRC, Tax Relief Statistics, December 2023.

BOX 3: The impact of tax and benefit changes this Parliament on household incomes

Figure 19 shows the average impact of all permanent tax and benefit changes made this Parliament on household incomes by age group. It is clear that the pensioners' incomes are set to fall the most (by £770) as a result of policy changes made this Parliament, primarily because they are subject to personal tax threshold freezes, but don't benefit from cuts to National Insurance rates.

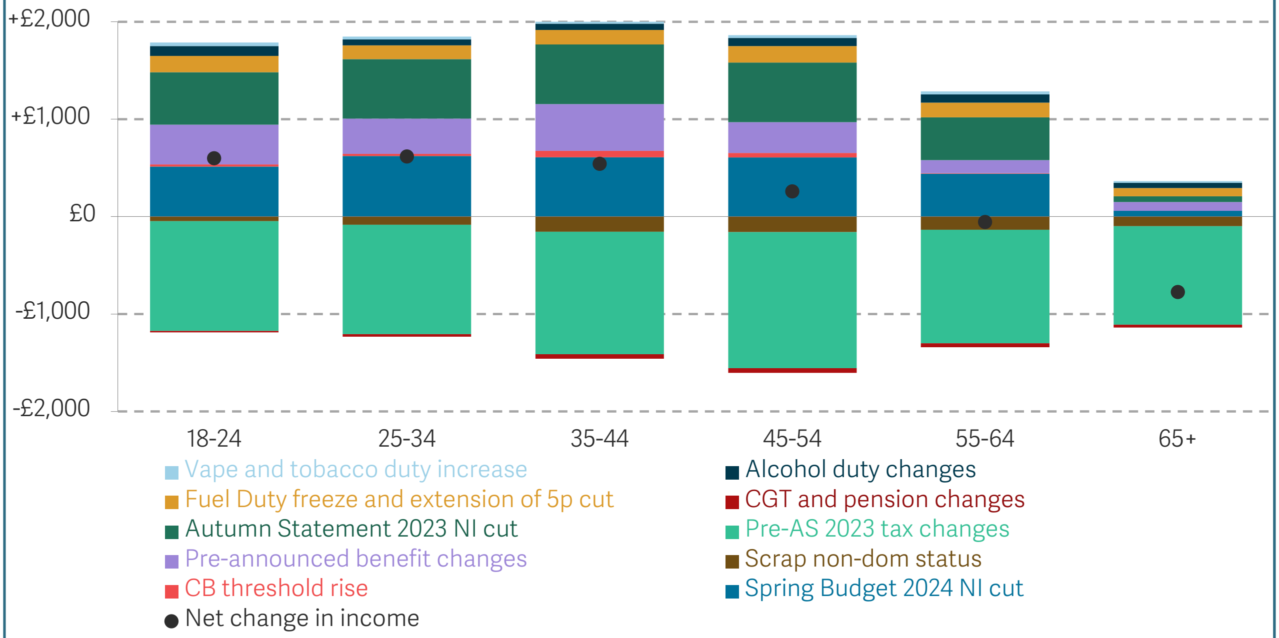
Conversely, it is households where the main reference person is 25-34 years old that benefit the most from this Parliament's policy changes (gaining £620), as they benefit the most on average from changes such as the change to the HICBC and the cut to the UC taper rate; households headed by someone aged 18-45 will gain £590 on average.[11] We can also look at how the gains and losses vary by household income. Overall, when the impact of all policies announced this Parliament are combined, the typical household gains £420 by 2027-28 (see Figure 20). Despite the decision to freeze NI and Income Tax thresholds until 2027-28, incomes rise for all but the highest-income households, thanks to increased benefit support for low-income households and cuts to National Insurance for those further up the income distribution.

And, importantly, the changes over the course of this Parliament are progressive, with lower-income households benefiting and high-income households losing out. In 2027-28, households in the bottom fifth of the income distribution are set to gain by £840 on average, largely thanks to benefit changes announced earlier this Parliament, such as cutting the UC taper rate from 63 per cent to 55 per cent.

11 An increase in the provision of free hours of childcare announced in the Spring Statement 2023 is not included in Figure 9, but would benefit parents the most.

FIGURE 19: **Pension-age households are set to lose out the most overall**

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

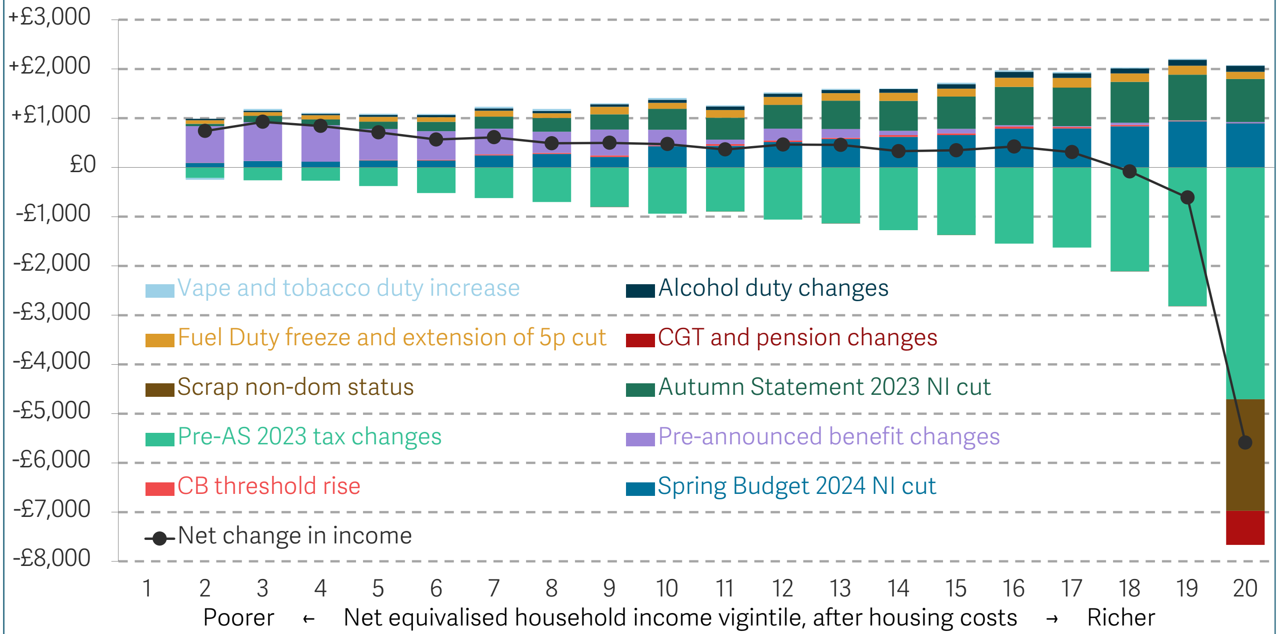


NOTES: Data is shown in 2024-25 prices. Spring Budget NI cut refers to the 2p cut to National Insurance. CB threshold rise refers to the increase in the thresholds for the High Income Child Benefit Charge. Pre-announced benefit changes include Pension Credit CPI uprating in 2023-24, reduction in the taper rate, increase in work allowances, benefit cap uprating in 2023-24, increase in UC childcare support caps, and increasing Local Housing Allowance to the 30th percentile of local rents in 2024-25. Pre-AS 2023 tax changes includes the increase in National Insurance threshold, Income Tax and National Insurance tax threshold freezes, Income Tax additional rate threshold reduction, increase in dividend tax rates and reduction in dividend allowances. Autumn Statement 2023 NI cut refers to the 2p cut to employee National Insurance, 1p cut to Class 4, and abolishment of Class 2. CGT and pension changes refers to the change to Capital Gains Tax entrepreneurs' relief, reduction in CGT exempt amount, reduction in the CGT property tax rate and increase to annual allowance and abolition of lifetime allowance in pension taxes. Alcohol duty changes includes freezes and other policy changes. Vape and tobacco duty increase include the new Vape Duty and increases in duties on tobacco during this Parliament.
SOURCE: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model; ONS, Living Costs and Food Survey; HMT, policy costings.

Meanwhile, high-income households will lose out the most from threshold freezes, while also being affected by other changes to Capital Gains Tax and pension taxes; a few of the very rich will also lose from changes to non-dom taxation. By 2027-28, households in the top fifth of the income distribution will lose out by an average of £1,500.

FIGURE 20: **All gain from policies this parliament apart from the highest-income households**

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



NOTES: Data is shown in 2024-25 prices. Spring Budget NI cut refers to the 2p cut to National Insurance. CB threshold rise refers to the increase in the thresholds for the High Income Child Benefit Charge. Pre-announced benefit changes include Pension Credit CPI uprating in 2023-24, reduction in the taper rate, increase in work allowances, benefit cap uprating in 2023-24, increase in UC childcare support caps, and increasing Local Housing Allowance to the 30th percentile of local rents in 2024-25. Pre-AS 2023 tax changes includes the increase in National Insurance threshold, Income Tax and National Insurance tax threshold freezes, Income Tax additional rate threshold reduction, increase in dividend tax rates and reduction in dividend allowances. Autumn Statement 2023 NI cut refers to the 2p cut to employee National Insurance, 1p cut to Class 4, and abolishment of Class 2. CGT and pension changes refers to the change to Capital Gains Tax entrepreneurs' relief, reduction in CGT exempt amount, reduction in the CGT property tax rate and increase to annual allowance and abolition of lifetime allowance in pension taxes. Alcohol duty changes includes freezes and other policy changes. Vape and tobacco duty increase include the new vape duty and increases in duties on tobacco during the parliament.
SOURCE: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model; ONS, Living Costs and Food Survey; HMT, policy costings.

The big picture, then, includes a notable shift in this Parliament to cutting NI (ignoring the short-lived Health and Social Care Levy policy), in contrast to the historic pattern of NI increases, and, overall, some progressive tax changes. But another, broader conclusion is simply that taxes are going up.

Tax overall is going up, in the greatest tax-raising Parliament since the Second World War

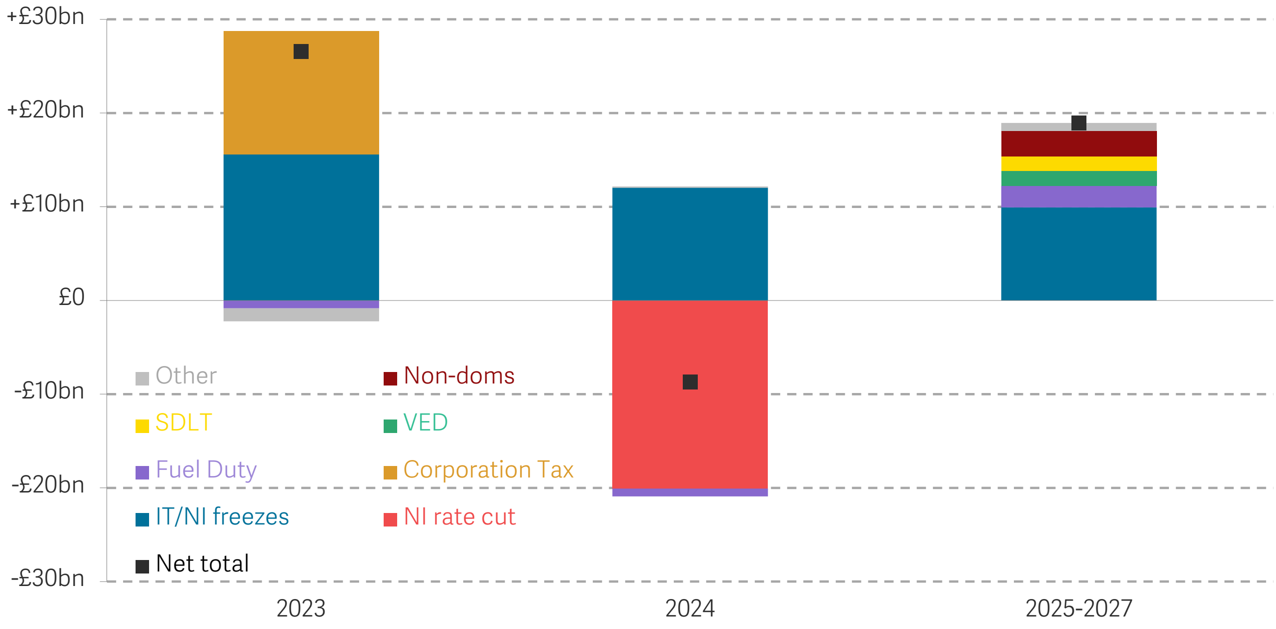
The Budget's net tax cut of £6.6 billion is no doubt significant, particularly in conjunction with the Autumn Statement: together they have delivered a projected net tax cut of £26 billion. But despite that, tax policy changes announced over this Parliament are net tax-raising overall.

Furthermore, although the election year ahead is set to see a tax giveaway (including a net personal tax cut of £8 billion), this is sandwiched between some even larger tax rises, as Figure 21 shows. Tax increases nearing £30 billion 'kicked in' last year, largely through the Corporation Tax rate rise and a freezing of tax thresholds (where they would otherwise have risen by 10.1 per cent).

Looking forward, it is unusual to go into an election with significant further tax rises planned (although 2010 provides one such example), but the Government's fiscal forecasts assume three more years of major tax threshold freezes, a Stamp Duty rise in 2025, a 5p Fuel Duty rise postponed (again) to early 2025, the extension of Vehicle Excise Duty to electric cars, non-domicile reform, an Air Passenger Duty rise, a Tobacco Duty rise and a new vaping duty. These amount to £19 billion of new tax rises.

FIGURE 21: **National Insurance rate cuts in 2024 contribute to a tax sandwich, with a big net tax cut taking effect in this election year but preceded and followed by tax rises**

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



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.

These policy choices, together with structural economic changes, are increasing the ratio of taxes to GDP.[12] This is set to rise from 33.1 per cent in 2019-20 to 36.5 per cent in 2024-

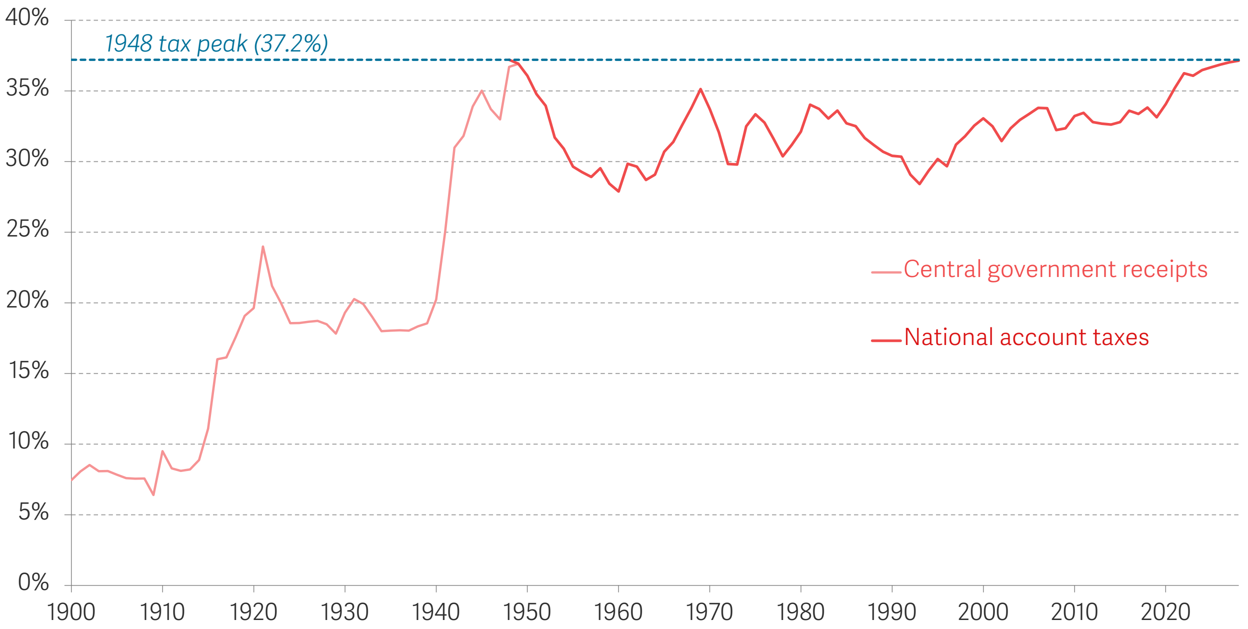
12 For more information on the non-policy drivers of higher tax receipts, see section 4.7 of: Office for Budget Responsibility, Economic and Fiscal Outlook, March 2024.

25, making this the parliament with the greatest tax take increase on record since the Second World War.[13] Within this rise, we are set to see Income Tax revenue increase from 8.6 per cent of GDP in 2019-20 to 10.9 per cent in 2024-25 – a rise of £2,200 per household. Similarly, Corporation Tax revenue as a share of GDP is forecast to increase from 2.3 per cent to 3.7 per cent of GDP over the same period. On the other hand, given the tax cuts announced yesterday and last November, NI revenue is now falling as a share of GDP, from 6.4 per cent in 2019-20 to 6 per cent by 2024-25, and the continual freezes, as well as the move to electric vehicles, means that Fuel Duty also continues to decline in importance, falling to 0.9 per cent of GDP by 2024-25.

Looking further ahead, the tax-to-GDP ratio is projected to grow slightly further to 37.1 per cent by 2028-29, just below the all-time record high of 1948 (see Figure 22). This 4-percentage-point increase in the tax-to-GDP ratio between 2019-20 and 2028-29 amounts to £3,900 per household.

FIGURE 22: **The tax-to-GDP ratio has risen substantially since 2019-20 and will almost reach its 1948 peak by 2028-29**

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



SOURCE: OBR, Economic and Fiscal Outlook, March 2024.

Tax giveaways remain predicated on undeliverable public spending cuts

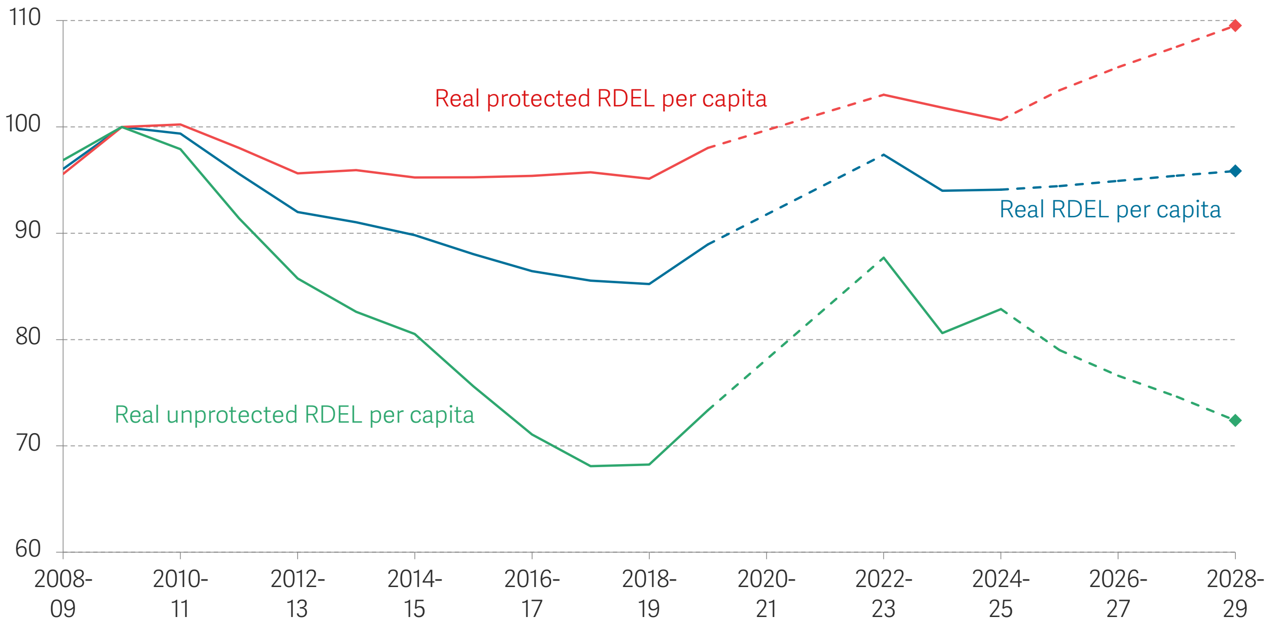
Rising spending pressures since the pandemic, particularly higher debt interest payments, mean that the higher taxes discussed above are to some extent unavoidable.

13 RF analysis of OBR, Policy measures database; HM Treasury, Spring Budget 2024.

But the desire for tax giveaways has also led to the 'fiscal fiction' of unrealistic planned post-election spending cuts. So, with economic forecasts that provided little scope for tax giveaways, it was something of a surprise that no further spending cuts were announced at the Budget. Instead, the Chancellor announced small top-ups, including £2.5 billion for NHS day-to-day spending in 2024-25, and a six-month extension of the Household Support Fund, costing £0.5 billion. And he also recommitted to increasing real-terms departmental spending by 1 per cent a year from 2025-26 to 2028-29.[14]

FIGURE 23: **The scale of departmental cuts looks undeliverable**

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



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. NHS budget is assumed to grow by 3.6 per cent a year in real terms; education budget is assumed to be flat in real terms and topped up for projected costs of childcare policies; defence is assumed to grow with nominal GDP; and foreign, commonwealth and development office budget is assumed to grow in line with 0.5 per cent of GNI. Figures include the impact of the Barnett formula. Supplementary PESA tables suggest protected departments Health and Defence and unprotected departments the Home Office and Transport receive higher funding in 2023-24 thanks to the reserve.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various.

Even so, the spending plans pencilled in by the Government look undeliverable. The Chancellor explicitly shelved plans to hold a pre-election Spending Review, meaning that whoever wins the election will inherit the tight spending plans now in place.[15] To

14 This swerves what would have otherwise been a £2 billion (or 1.2 per cent) real-terms cut to the NHS budget between 2023-24 and 2024-25. The 1 per cent real terms growth in departmental spending between 2025-26 and 2028-29 is unchanged from the Autumn Statement.
15 HM Treasury, Spring Budget 2024, March 2024.

get a sense of just how tight those are, we can account for the expected spending protections – for NHS England, Education, Defence and the Foreign Commonwealth and Development Office – and back out what that means for the remaining 'unprotected' departments, such as Justice, the Home Office and local government.[16] As shown in Figure 23, doing so implies that real per-capita day-to-day spending cuts for unprotected departments total 13 per cent between 2024-25 and 2028-29. This is equivalent to cuts of £19 billion to unprotected departments by the end of the forecast period considering population growth.[17] The implied cuts compared to the recent (2022-23) peak in spending power are £27 billion a year in 2028-29.

The scale of cuts to unprotected departments is equivalent to almost three-quarters (71 per cent) of the size of those inflicted in the first austerity parliament, where these departments were cut by 18 per cent per person between 2010-11 and 2014-15. As discussed in Box 4, it is hard to imagine cuts on this scale being delivered in the face of the evidence that the public want more, rather than less, spending on public services.

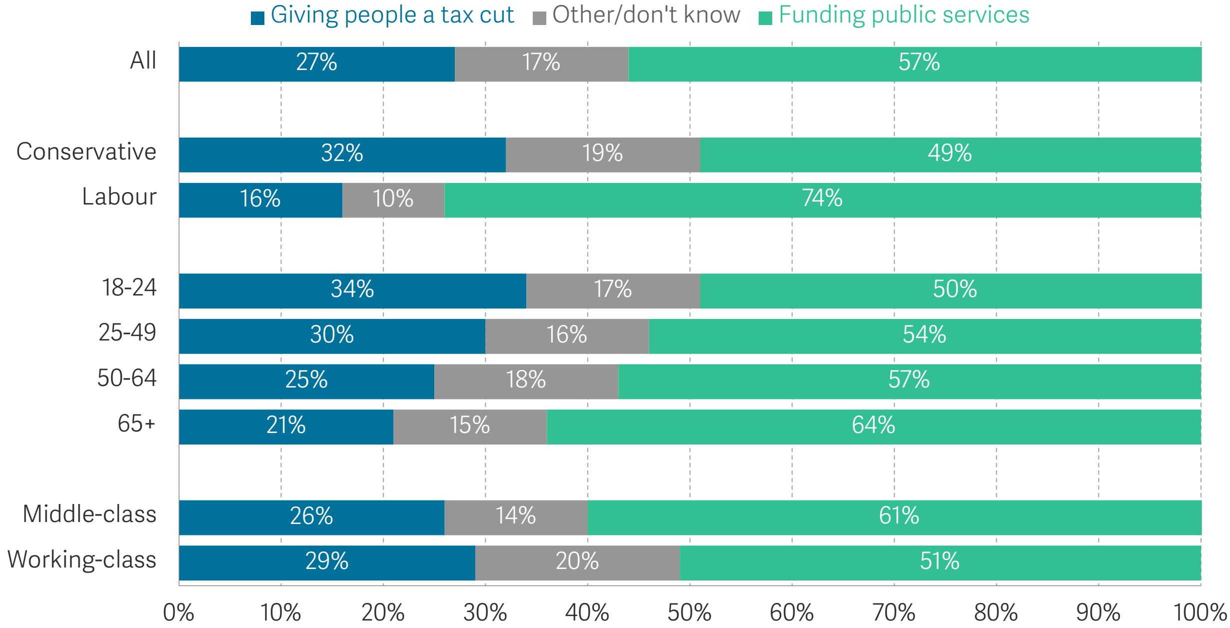
BOX 4: **Polling evidence suggests voters favour funding public services over tax cuts**

When asked in a recent YouGov poll, nearly three-in-five of the public supported prioritising funding public services over tax cuts, double the number who supported prioritising tax cuts. This included nearly half of Conservative voters, while across all ages and social classes, a majority also supported prioritising spending over tax. Younger people were more likely to support tax cuts than their older counterparts, with 34 per cent of 18-24-year olds supporting prioritising tax cuts over funding public services compared to 21 per cent of those aged 65 and over. Further, Conservative voters were twice as likely to support tax cuts as Labour voters (see Figure 24).

16 Spending refers to resource departmental expenditure limits, or RDELs.
17 Holding per-capita spend at 2024-25 levels in 2028-29.

FIGURE 24: **All groups by voting intention, age and social class support funding public services over tax**

Proportion of respondents by answer to the question "Do you believe the government should prioritise...?": GB, February 2024



NOTES: Middle-class refers to the National Readership Survey's ABC1 social grade and working-class refers to the National Readership Survey's C2DE social grade. The other/don't know bar has been rounded to 15% for 65+ group to ensure the whole bar equals 100%.
SOURCE: YouGov, "Do you believe that the government should prioritise...?", February 2024.

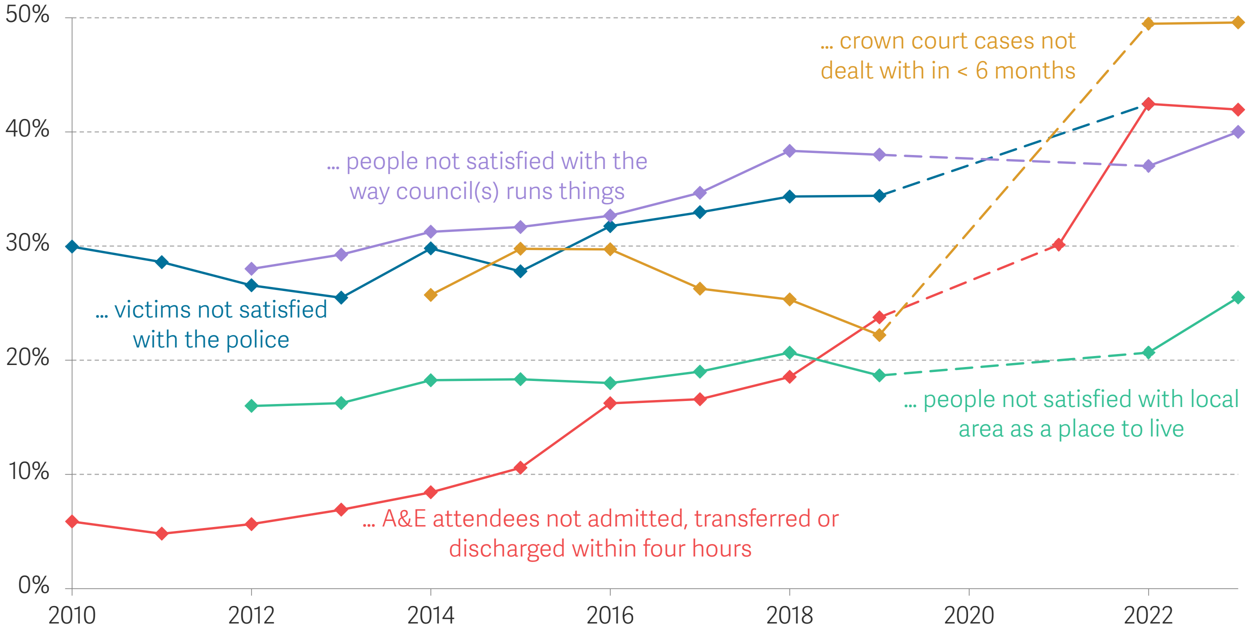
There are three reasons for thinking that these spending plans will inevitably be topped up.

First, public services are clearly struggling (see Figure 25).[18] The share of crime victims not satisfied with the police increased from three-in-ten in 2010-11 to four-in-ten by 2022-23, for example. Likewise, the proportion of people not satisfied with their local place as a place to live has increased from one-in-six (16 per cent) in 2012 to one-in-four (26 per cent) by 2023. And by 2023, around half of all crown court cases were not dealt with in 6 months or less, twice the one-in-four figure back in 2014. The prison service is reaching breaking point, too, with record numbers of prisoners far above the service's ability to provide decent accommodation and maintain prisoner safety.[19]

18 Even in the NHS, with its spending largely protected, backlogs have mounted: for example, there has been a rapid increase in the proportion of accident and emergency attendees not admitted, transferred or discharged within four hours (up from 6 per cent in 2010 to by 2023). Source: RF analysis of NHS, A&E Attendances & Emergency Admission statistics.
19 The Ministry of Justice expects the number of prisoners to increase three times faster than prison capacity; see: S Hoddinott et al., Performance Tracker 2023: Public services as the UK approaches a general election, Institute for Government, October 2023.

FIGURE 25: **Public services are under severe strain**

Proportion of court cases, people, victims and A&E attendees reporting various forms of not being satisfied or where services are struggling to deliver: England



NOTES: Data on victims not satisfied with the police covers England and Wales and spans financial years. A&E figures are 12-month averages for Type 1 attendances. Dashed lines indicate periods during the pandemic.
SOURCE: RF analysis of Institute for Government, Performance Tracker; ONS, Crime Survey for England and Wales; NHS England, A&E Attendances & Emergency Admission statistics.

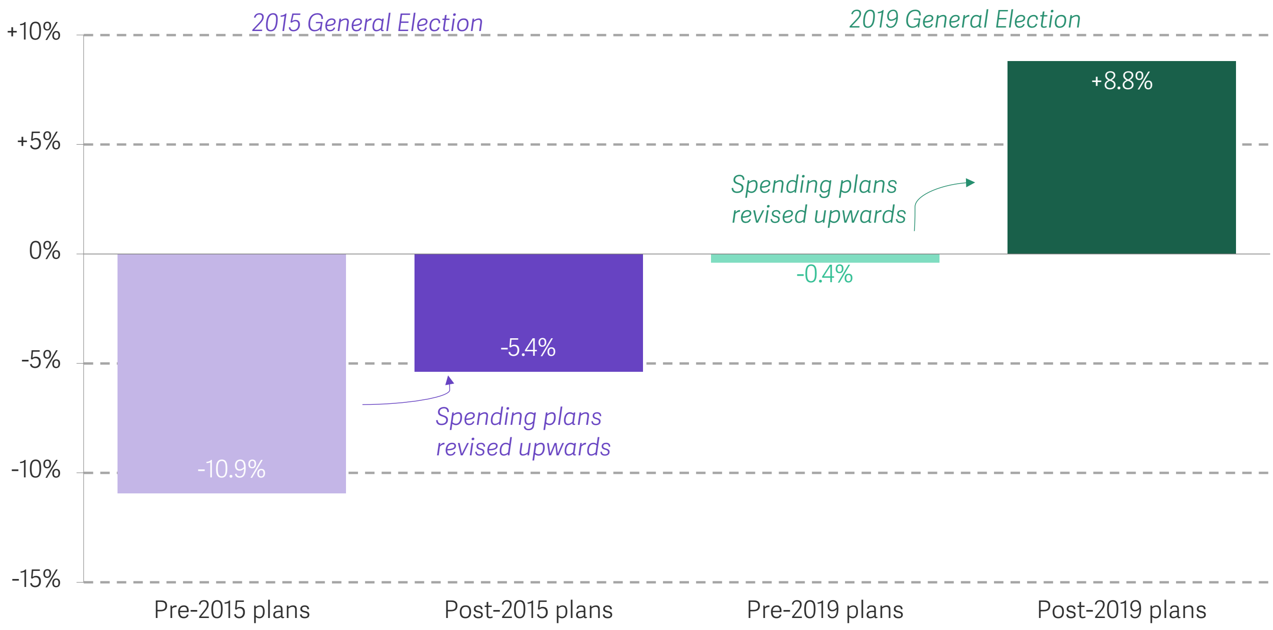
Second, many departments faced renewed spending pressures after the election including to retain and recruit staff. Just under half (43 per cent) of the Justice budget is staff costs, and if wages rise in line with those in the private sector, the Justice department would need a budget increase of 5 per cent per capita by 2028-29 compared with 2024-25, rather than the 13 per cent cut pencilled in.

And third, history tells us that such pencilled-in plans are often topped up at post-election Spending Reviews. Indeed, as shown in Figure 26, cuts to real RDEL spending pencilled in at the March Budget 2015 (the final fiscal event before the election) were twice as severe as those set out in the Spending Review that followed the election (-10.9 per cent vs -5.4 per cent over a five-year period). Similarly, the OBR's forecasts before the 2019 General Election indicated that there would be no growth in real RDEL spending between 2018-19 and 2023-24, but these plans were revised significantly upwards (to +8.8 per cent) in the 2020 Spring Budget that followed.[20]

20 These revised plans initially related to increases to funding for NHS and then Covid-related spending.

FIGURE 26: **Spending plans tend to get topped up post-election**

Change in real resource departmental expenditure limits over five-year periods, pre- and post-election plans according to OBR forecasts



NOTES: Deflated using the OBR forecast for the GDP deflator to 2024-25 cash terms. 2015 plans refer to change between 2014-15 and 2019-20; 2019 plans refer to change between 2018-19 and 2023-24.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various.

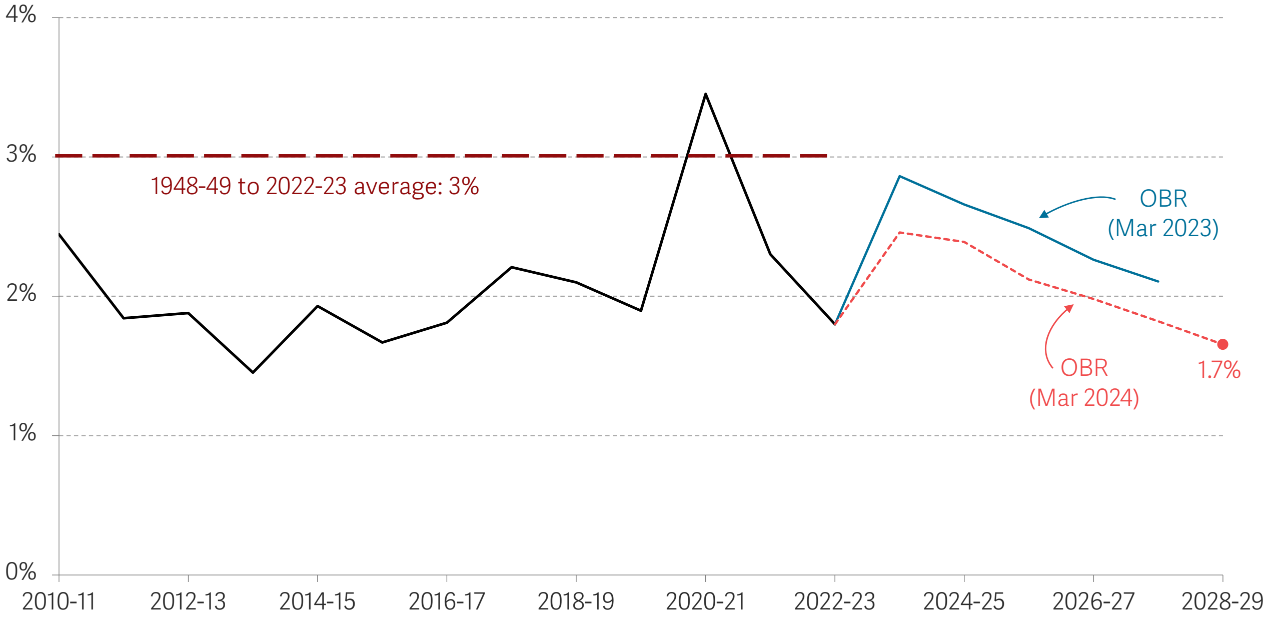
Cuts to investment spending are deliverable but unwise

The Government has also decided to pencil in cuts to investment spending. In contrast to day-to-day spending, these cuts look possible to deliver – but they are deeply undesirable. Under the Government's existing plans, Public Sector Net Investment (PSNI) is forecast to fall to just 1.7 per cent of GDP by 2028-29 (see Figure 27). Between the start of the next Parliament in 2024-25 and the end of the forecast period in 2028-29, capital spending as a share of GDP is set to fall by one third, equivalent to a £26 billion cut relative to holding investment fixed at its current level of GDP. It is hard to think of a more anti-growth policy choice, particularly given that UK public investment has remained consistently low for decades, at around half that of the OECD average.[21]

21 F Odamtten & J Smith, Cutting the cuts: How the public sector can play its part in ending the UK's low-investment rut, Resolution Foundation, March 2023.

FIGURE 27: **Big cuts to public investment are pencilled in**

Public sector net investment as a proportion of GDP: UK, 2010-11 to 2028-29



SOURCE: Analysis of OBR, Public Sector Finances Databank; Bank of England, A millennium of macroeconomic data for the UK, 2020.

The economy is turning a corner, but the outlook for living standards across this Parliament remains bleak

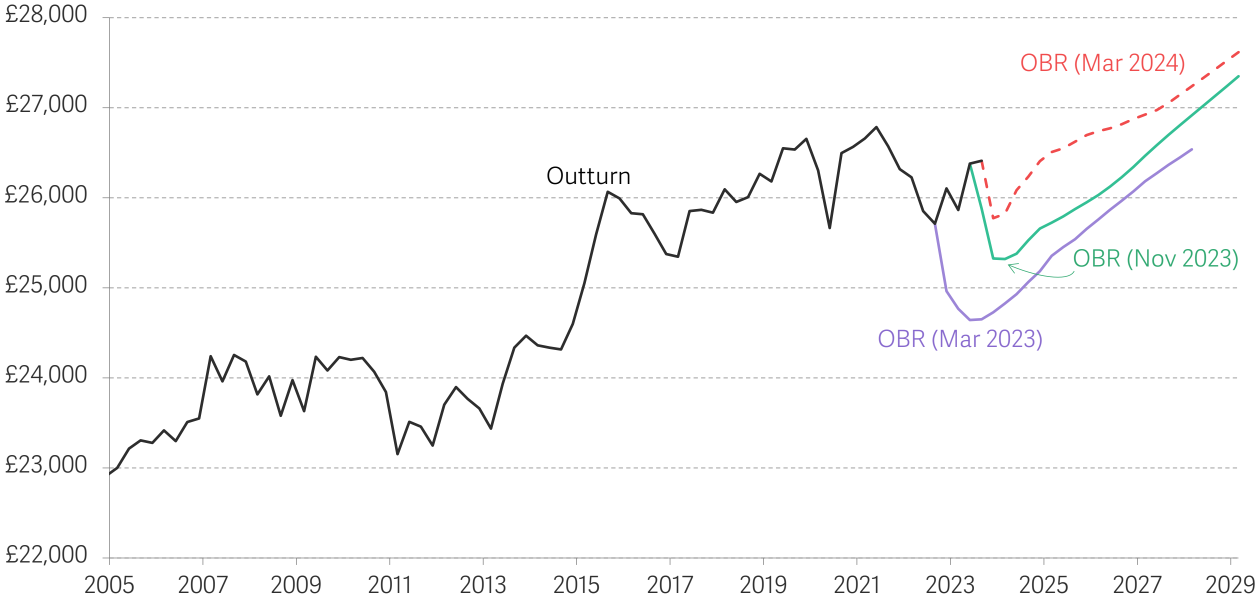
The Chancellor spoke about the economy beginning to 'turn a corner' – and the living standards outlook across the coming Parliament is indeed looking brighter than was forecast in November or March last year (see Figure 28). Real Household Disposable Income per person (RHDI) is set to return to its pre-pandemic peak by the end of 2025 – this is much sooner than was forecast in November, when this bounce back was not expected to happen until the autumn of 2027.

And when we look at the 2024 election year as a whole, the outlook has changed significantly since the November forecast. RHDI is now expected to be stable between 2023 and 2024 (rising slightly by 0.1 per cent), whereas in the November forecast it was set to fall by 1.5 per cent.

But when we look across this Parliament as a whole, the picture is less positive. Despite the upwards revision to RHDI since the November forecast, the current Parliament still looks set to be the worse in recent history for living standards (based on per-capita RHDI) with RHDI is set to fall slightly by 0.9 per cent (see Figure 29). This equates to a loss of £250 per person between 2019 and 2025 – beating the slight increase of £260 between 2015 and 2017 (the second-worst parliament in recent history).

FIGURE 28: **Real Household Disposable Income is set to rebound much more quickly than was forecast last year**

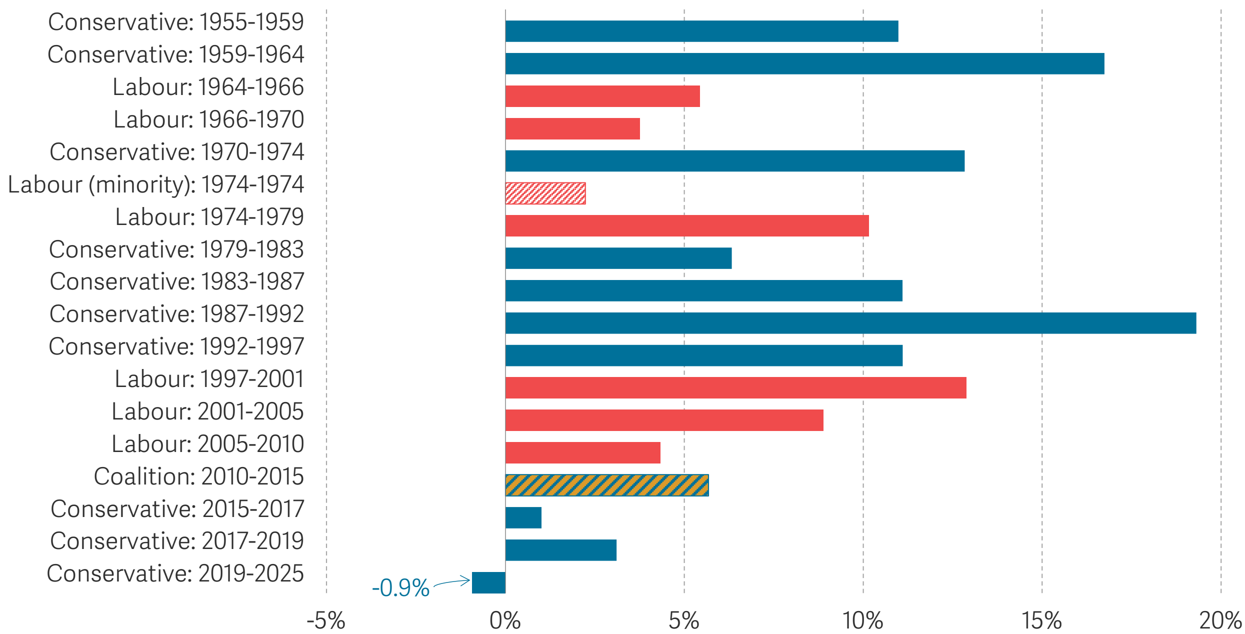
Average Real Household Disposable Income per person, in 2024-25 prices: UK



NOTES: Includes non-profit institutions serving households (NPISH).
SOURCE: ONS, UK Economic Accounts; OBR, Economic and Fiscal Outlook, various.

FIGURE 29: **This Parliament remains the worst in recent history for household income growth**

Change in average Real Household Disposable Income per person: UK



NOTES: Includes non-profit institutions serving households (NPISH).
SOURCE: ONS, UK Economic Accounts; OBR, Economic and Fiscal Outlook, various.

Overall, then, while Budget day is always a big deal for Westminster, the reality is that the policy announcements in this one leave the big picture for Britain little changed. Taxes are rising, not falling, and, for the first time, incomes are set to fall over the course of a Parliament. Big tax cuts may or may not affect the outcome of the coming election, but the economic and fiscal inheritance faced by the next Government is daunting: it will have to not only wrestle with implausible spending cuts and further planned tax rises, but also restart sustained economic growth – the only route to end Britain's stagnation.

Resolution Foundation

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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