The Budget

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Reeves' Opening Gambit

The stakes could not have been higher for Rachel Reeves as she stood up today, as the first ever female Chancellor, to deliver Labour's first budget in 14 years. After a difficult summer, with Labour (and Keir Starmer's) popularity plummeting, this budget was a key moment to reset a more optimistic narrative of 'national renewal' and set out a commanding Labour vision for the economy and governing in the years to come.

The terrain of a £22bn 'black hole' said to be created by the previous government had been firmly set and today, Reeves said, was the start of 'rebuilding the foundations' and restoring growth.

Delivering on this, however, is no easy task (manifesting itself in apparent near chaos inside the Treasury in recent weeks) balancing avoiding a Truss-style spooking of the bond markets with Labour's hands tied on pledges not to raise 'taxes on working people' namely VAT, National Insurance or Income Tax - three of the biggest revenue raisers.

One tried and tested way of squaring the circle, announced earlier this week, was the setting of two new fiscal rules – the 'stability rule' to ensure daily government spending is covered by revenue and an 'investment rule' to reduce debt relative to GDP to allow for £50bn of extra borrowing for capital projects to boost public infrastructure projects.

The second is, of course, inevitable departmental spending cuts due to be further detailed in the 'late Spring' and today's tax rises of £40bn. Increases included an additional 1.2% in employers' national insurance contributions, as well as the maintenance of freezing income tax thresholds, though in a surprise move these will be uprated in line with inflation from 2028-9 - just in time for the next election. These increases along with a hike in the National Minimum Wage of 6.7% by 2025, coming close on the back of Labour's employment proposals to 'make work pay' are already highly controversial with business, who Labour so extensively courted ahead of the election.

But it may not just be those "with the broadest shoulders" who are skeptical about the vision set out today. Whilst there were popular moves such as the continued freeze in fuel duty and significant new funds for schools along with more breakfast clubs, as well as 1p 'off a pint' in the pub, taxes will go up. With no reversal of the two-child benefit cap and the earlier move to means-test the Winter Fuel Allowance, changes will hit people's pockets and in turn Labour MP's mail bags.

So, whilst today may have been the laying of foundations, with only relatively modest projections for growth, Reeves will have work to do to deliver on her commitment to ensure, "investment, investment, investment" is swiftly built on and that today will be enough to deliver an uptick in Labour's fortunes along with the economy in the years to come.

Katherine Morgan
Managing Partner of Public Affairs, Europe

Key announcements: The Budget

Employers' National Insurance Contributions

- Raise employer's National Insurance contributions by 1.2 percentage points from 13.8% to 15%.
- The threshold at which businesses start paying National Insurance will be lowered from £9,100 to £5,000.

Inheritance and Capital Gains Tax

- The lower rate of Capital Gains Tax will be increased from 10% to 18%, and the higher rate from 20% to 24%, while maintaining the standard rates of capital gains tax on residential property at 18% and 24%
- Increase Capital Gains Tax rates on carried interest to 32% from April 2025
- Inheritance tax threshold freeze for a further two years until 2030
- From April 2026, inheritance tax will apply with 50% relief at an effective rate of 20%

Investment

- Increase capital investment by over £100bn over the next five years
- Increase investment in public services for 2025/26 by £1.5bn – including £3.75 on the NHS, £1.4 on schools, £1.2bn on prisons and £1.4bn in road maintenance

Minimum Wage Increase

- Minimum wage will rise 6.7% , which means it will be £12.21 an hour
- Minimum wage for people aged 18-20 will rise to £10 an hour (an increase of £1.40)
- Apprentices will get the biggest pay bump, with hourly pay increasing from £6.40 to £7.55.

Fiscal Spending Rules

- Introduction of a stability rule to move the current budget into balance, day-to-day spending met by revenues, government will only borrow for investment
- Introduction of investment rule – to reduce net financial debt (public sector net financialliabilities) as a proportion of GDP

Transport and Infrastucture

- Cap on bus fares changed from £2 to £3
- All Air Passenger Duty rates to be adjusted in 2026-27, adding £2 for those flying economy to short haul destinations. Air Passenger Duty to be increased by 50% for private jets
- Freezes to fuel duty and extension of the tempoary 5p cut for one year.

Health

- The NHS budget will rise by +£22.6 billion by 2025/26, amounting to a 4% real terms growth rate across two years, aimed at delivering the 40,000 extra NHS appointments per week pledge
- Capital spending will also rise by +£3.1 billion by 2025/26, covering new surgical hubs and diagnostic equipment

Defence spending

- Defence spending with an additional £2.9 billion next year, with an additional promise of an annual £3 billion in support each year for Ukraine for "as long as long as it takes"
- Proportion of national wealth spent on the military will decline slightly but remain at 2.3% of GDP

Energy and Net Zero

- Increase in windfall tax on North Sea oil and gas producers to 38% from 35% and extend the levy by one year until 31 March 2030.
- GB Energy will receive £8.3 billion Government investment
- A new National Infrastructure and Service Transformation Authority (Nista) will be created to advise on proposed infrastructure investments

Education and childcare

- Investments include £1.4 billion to maintain the School Rebuilding Programme, £1.8 billion for expansion of childcare hours and £30 million to continue Labour's planned schoool breakfast club rollout.
- 20% VAT rate will be added to private school fees from 1 January 2025

Other announcements

- 2% productivity savings target for government departments
- 2% increase in day-to-day Government spending in real terms between 23/24 and 29/30
- Continuation of freezing the small business multiplier and providing 40% relief on bills for RHL properties, up to a £110,000 cash cap.
- Cut in Alcohol Duty for draft products.
- Corporation Tax to remain at 25% for the duration of the Parliament.

Sector analysis: DGA's public affairs experts

Ed Lavelle, Director. *Business and Trade*

Business will look at the Budget of something of a mixed bag. It's true, the Chancellor has lent on business to front the large majority of tax increases, but more than doubling the NI employers allowance to £10,500 will come as a blessed relief to many SMEs. And while there will be disappointment that the 75% discount on BR will end in April, the 40% discount for 2025-26 will be seen as an attempt to capture a soft landing. HMT will be adamant that the Corporation Tax Roadmap is the right tool bring about much needed stability, but there remains a huge amount of ground to cover for the Chancellor to persuade the country that Labour is the party of business

Josh Aulak, Director. *Energy and Net Zero*

Having already reversed the onshore wind ban, taken steps to set up GB Energy and provided funding for Track-1 CCUS projects, the Government has hit the ground running in pursuit of their halo energy mission of clean power by 2030. The Budget contained little in the way of new energy investment with one of the most interesting aspects being what was absent – the plan to actually deliver clean power by 2030. This is currently being devised by the Head of Mission Control, Chris Stark, and while the Government is committed to grid reform, they will need to see almost immediate results to reap any political benefits in this Parliament.

Ben Mitchell, Associate Partner. *Health and Social Care*

The higher-than-expected uplifts in NHS funding will leave many in the sector relieved, especially as the health service heads into a challenging winter period. The Government will also hope this funding will buy some public goodwill in this period while they consult on the 10-year plan. The challenge will be ensuring this extra funding is spent effectively. Streeting has repeatedly said "no funding without reform", therefore today could imply that the scale of reform will be commensurate with the scale of funding increases set out by the Chancellor.

Becky Franklin, Director. *Transport*

The budget announcement shows a strong commitment to transport investment, particularly in rail and road infrastructure, but it notably lacks a long-term strategy especially regarding sustainable travel. While there are positive steps such as recommitting to delivering HS2 to Euston, supporting regional transport connectivity and road maintenance, the absence of significant investment in active travel and public transport raises concerns. With significant funding directed towards roads, there is a missed opportunity to encourage a shift away from less sustainable transport modes. Its clear Labour aims to prioritise transport in their growth strategy, but a more balanced approach focusing on sustainability and active travel is essential for a greener future.

Gabriella Hartfield, Associate. *Defence and Aerospace*

With significant MoD reforms unveiled by the Secretary of State, John Healey days ago and the Strategic Defence Review expected this spring, the Autumn Budget isn't defence's main event but signals spending priorities. Next year's £2.9bn increase keeps the UK above NATO commitments, with a pledged £3bn in annual military support for Ukraine. While this sustains defence for now, notable increases in other Whitehall budgets suggest tough programme cuts may come by spring. Additionally, there are questions around whether foreign aid and broader security cuts will be used to temporarily boost MoD funding.

Tom Hollywood, Director. *Technology*
For tech and R&D, the Budget was heavy on warm rhetoric and light on detail. Much will depend on how effectively DSIT and funding bodies spend the maintained R&D budget. We're likely to have a much clearer idea after the Spending Review, Industrial Strategy and Matt Clifford's AI Opportunities Plan (including whether Government accepts recommendations that require spending). Tax rises on successful founders could also damage incentives for innovation. A focus on driving efficiency through tech in public services will be welcome for suppliers, but to really reap the economic benefits these technologies will have to be developed – not just deployed – in the UK.

Victoria McNish, Director. *Housing*
The new fiscal headroom includes £500m for the Affordable Homes Programme, given the target of 1.5m new homes – with more promised in Spring. The social housing focus includes a new rent settlement and reduced Right to Buy discounts to protect council stock. For SME builders and Build to Rent is £3bn of housing guarantee schemes to boost housing delivery, and money for new planning officers. Significant for the private sector and landlords is the 3%-5% stamp duty increase for second homes and rental properties. The intention is to give first-time buyers a competitive advantage, but landlords warn this will exacerbate rental supply/demand challenges.

George Pugh-Thorogood, Senior Associate. *Financial Services*
Labour's first Budget was always going to hurt, but the City's fears intensified with talk of a £40bn "black hole" and tweaks to UK debt rules. Reeves says she 'met' manifesto promises by raising inheritance, reforming residency rules, and boosting rates on private equity. She inflicts added but not unexpected pain, by raising capital gains closer to EU levels. After weeks of intense speculation, the Overton Window shifted: PE firms will feel relief Reeves didn't equalize carried interest with income. Similarly, a CGT hike to 24% may sit lighter with firms, given suggestions it would rise higher. While the pain was heavily trailed, that doesn't mean it will hurt any less. Attention now shifts to the Chancellor's Mansion House address, where firms will hope for some good news.

Tamsin Melville, Senior Associate. *Education*
Labour has prioritised education and childcare among its key missions, pledging funding for teacher recruitment, SEND support, and childcare affordability. And by and large, the education sector was a clear "winner" from today's Budget. The proposed Skills England is seen as a positive step for industries facing skills shortages, while significant investments in teacher recruitment and the schools estate will be warmly received. Questions will remain as to whether these investments will be enough to drive sustainable improvements in childcare and education, but many across the education industry will be breathing a huge sigh of relief this evening.

Harvey Tebay, Senior Associate. *FMCG*
The October Budget 2024 delivers a mixed bag for the FMCG sector. The increase in the Soft Drinks Industry Levy (SDIL) to reflect CPI inflation signals a serious push against obesity, but the pending review of sugar thresholds and exemptions will be critical in ensuring its effectiveness. While cutting alcohol duty for draught products supports pubs and the hospitality industry, inflationary hikes on non-draught options may strain producers in the wider drinks sector. Additionally, the introduction of a flat-rate duty on vaping products highlights a growing regulatory focus on consumer health.