Spring Budget

Overview

Yesterday the Chancellor, Jeremy Hunt, delivered his Spring Budget. He hailed it as a "budget for growth" following the Autumn Statement which prioritised economic stability. His statement focused on the four pillars of the government's industrial strategy – "Enterprise, Employment, Education, Everywhere". There was a strong focus on improving labour market activity and getting people back into work. In addition to this the Chancellor announced an expansion of childcare provision, referring to it as a "childcare revolution". Although many of the announcements had been briefed in advance, his announcement on abolishing the lifetime cap on pensions went further than expected.

Please see below a comprehensive summary and analysis of yesterday's Budget.

Economic overview

The OBR's economic and fiscal outlook presents a slightly more optimistic forecast than it did ahead of the Autumn Statement in November. Despite the more positive outlook for the economy, the OBR highlights a range of structural challenges, including a stagnation in business investment, sluggish productivity growth, and falling labour market participation rates, all of which cause concern for future growth prospects.

The OBR forecasts that while the economy will contract by 0.2% this year, a "technical recession" – two consecutive periods of negative growth – will be avoided. The short-term outlook for GDP has also slightly improved with the OBR now expecting the economy to grow by 1.8% in 2024 and 2.5% in 2025, before falling back towards 1.75% in the latter half of the decade.

While the OBR now forecasts that real household disposable income (RHDI) – a common measurement for real living standards – will not fall as sharply as previously forecast in November, it still expects a 5.7% fall in RHDI to March 2024. For context, this would be the largest two-year drop in real living standards since records began in 1956.

The fiscal outlook follows a similar pattern. Public sector net borrowing in 2022/23 is set to be 6.1% of GDP, £24.7bn lower than the OBR's November forecast, giving the Chancellor greater flexibility to legislate for yesterday's Budget measures. Public sector borrowing is expected to fall over the next five years to 1.7% of GDP by 2027/28.

With reference to the government's own fiscal rule that public sector net debt should fall by the end of a five-year rolling period, the OBR forecasts that this will be met by the thinnest of margins – £6.5bn or 0.2% of GDP. The OBR notes this "is the smallest amount of headroom any Chancellor has set aside against his primary fiscal target" and gives the government very little room to mitigate future economic shocks.

Finally, CPI inflation is set to dramatically fall, faster and further than the OBR's November forecast to 2.9% by the end of the year. Inflation is then expected to fluctuate around zero between 2024 and 2027 before returning to target in early 2028. GDP deflator growth has been significantly lower than CPI in 2022/23 due to a fall in the terms of trade (whereby the price of UK imports has increased relative to the price of UK exports). While there has been slightly stronger growth in the 2022/23 deflator (largely due to private consumption), forecasts over the spending review period are largely unchanged against the OBR's November 2022 forecasts.[1]

OBR's GDP deflator forecasts

	2022/23	2023/24	2024/25
March 2023 forecast	5.7	2.5	1.6
November 2022 forecast	4.9	3.2	1.3

Department of Health and Social Care spending

Yesterday's Budget was relatively light on new policy announcements affecting health and social care, which could be reflective of the unexpected additional support provided to the sector in the Autumn

[1] It is important to note that the most accurate measure of 'true' inflation across public services likely sits somewhere between the deflator and CPI.

Statement. In conjunction with most departments, the Chancellor announced no changes to the total funding levels for the Department of Health and Social Care.

Both 22/23 DHSC revenue and capital budgets have been updated against the Autumn Statement forecast to reflect the projected outturn position to include some adjustments for additional expenditure, predominantly on Covid-19 related items.

Revenue funding

	2022/23	2023/24	2024/25
DHSC revenue budget (£bn)	173.9	176.2	180.5
Of which NHSE (£bn)	155.4	160.4	165.9

Capital funding

	2022/23	2023/24	2024/25
DHSC capital budget (£bn)	11.2	12.0	12.6

The government reiterated its commitment to improving urgent and emergency care, as set out in the recent recovery plan, and has also highlighted further details will be published with regards to primary care in due course.

The Autumn Statement included a much-anticipated announcement that the government would commit to publishing a long-term NHS workforce plan in spring 2023, containing independently verified forecasts of the number and type of staff the NHS needs to deliver on its mandate in 5, 10, and 15 years' time. The government reaffirmed its commitment to the long-term workforce plan in the Budget and has confirmed this will be published "shortly", but gave no detail on funding for this, as was hoped.

Health and social care related announcements

Reforming taxation of pension savings

The government remains concerned about the increasing numbers of economically inactive members of the population, with 320,000 more inactive people in the 50-64 age bracket compared to pre-pandemic levels. In order to combat this, the Budget included three announcements set to incentivise continued labour market participation via reforms to the pension system:

- The Lifetime Allowance charge will be removed from 6 April 2023, with the aim to permanently abolish the Lifetime Allowance in future. The Lifetime Allowance charge is currently only paid when a person's total pension pot exceeds the value of £1,073,100.
- The Annual Allowance will increase from £40,000 to £60,000 from 6 April 2023, increasing the amount at which in-year pension savings tax is charged on individuals.
- Open and closed public service pension schemes will now be considered linked when calculating Annual Allowance charges, which will allow individuals to offset any negative pension growth against the Annual Allowance.

While such reforms have not been specifically designed with the NHS in mind, the Chancellor highlighted that these pension tax reforms will stop over 80% of NHS doctors from receiving a tax charge related to their pensions. This is welcome, as it will reduce the incentive for senior NHS staff to retire early or to reduce their pensionable working hours.

Other relevant announcements

Childcare

Childcare was a central focus of the Budget. The government has announced a number of measures to help with the cost of childcare, including:

- Providing 30 hours a week of free childcare for 38 weeks a year, for eligible working parents of children aged 9 months to 3 years. This will be rolled out in phases from April 2024 and is in addition to the 30 hours a week already provided for eligible working parents of 3 to 4-year-olds;
- Uplifting the hourly funding rate paid to providers to deliver the existing free hours offered in England;
- Providing free childcare for eligible working parents of children from 9 months until they start school;

- Launching a wraparound pathfinder scheme to support the expansion of school-based childcare provision either side of the school day;
- Support for childcare costs in Universal Credit will be made available upfront and the maximum potential benefit for parents will be increased.

Welfare and employment

Yesterday the Department for Work and Pensions (DWP) also published *The Transforming Support: The Health and Disability White Paper*. This document outlines the government's plans to support disabled people and those with long term health conditions back into work and improve labour market participation.

As part of the government's aim to grow the economy, the Chancellor focused on increasing employment. The budget set out an employment package which focuses on supporting the long term sick and disabled, welfare recipients and the unemployed, older workers, and parents. These include:

- Introducing a new Universal Support programme, which will match individuals in England and Wales who want to work with existing job vacancies;
- Increasing work coach support and work search requirements and implementing sanctions for those failing to take up jobs;
- Encouraging 50-64 year olds back into the work place by raising the annual tax-free allowance on pensions to £60,000;
- Removing the Work Capability Assessment, which can deter disabled people or people with long term health conditions from entering and remaining in employment. Instead, there will only be one health and disability assessment – the Personal Independent Payment assessment.

In addition, the government will develop digital resources for management of mental health and musculoskeletal (MSK) conditions, and will scale up MSK hubs in the community. It will also digitise the NHS health check to identify more cases of cardiovascular disease.

The government has also committed to providing mental health support to people in employment via the 'Access to Work Mental Health Support Service', and will publish a 'major conditions strategy', which DHSC will develop in collaboration with NHSE. This should outline a policy framework to better enable integrated, whole-person care.

Energy support

The government announced it will extend the Energy Price Guarantee (EPG) for a further three months. The EPG places a limit on the price households pay per unit of gas and electricity. It will be maintained at its current level of £2,500 per year. The planned increase to a level of £3,000 per year will be implemented on 1 July. In addition to this measure, the government is "removing the premium paid by over 4 million households using prepayment meters" to bring charges in line with comparable direct debit customers until the EPG ends.

NHS Providers view

Abolishing the lifetime allowance

The Chancellor has heeded calls from leaders and staff across the NHS with long-overdue, meaningful pensions reform and the scrapping of the lifetime allowance. For far too long, a series of temporary quick fixes by the government has failed to stem the flow of senior NHS staff either taking early retirement or not taking on extra work for fear of being slapped with significant and unpredictable tax bills.

Yesterday's removal of the lifetime allowance will help keep highly valued, experienced senior NHS staff – who play a critical role in delivering and directing patient care as well as training and developing the next generation of the workforce- within the health service.

Welcome announcements on pension flexibility and raising the annual allowance threshold

Raising the Annual Allowance (AA) threshold from £40,000 to £60,000 will result in far fewer NHS staff seeing large in-year tax bills as a result of pre-determined pension contribution levels and will therefore remove much of the financial incentive for them to reduce their hours.[2]

The increase to the annual allowance threshold should mean that far fewer senior NHS staff will be hit with large in-year tax bills. However, as the Institute for Fiscal studies notes, more generous annual allowances may enable higher-paid workers to build up savings quicker and retire earlier than planned. The OBR forecast the changes will increase employment by 15,000 people – it is unclear how many consultants will return to the frontline as a consequence of these changes.

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[2] However, we do note that the AA threshold was previously set at £255,000 in 2010, before being cut to £50,000 in 2011 and again to £40,000 in 2014, where it has remained ever since.

The announcement of the option for public sector workers to use both open and closed schemes to calculate AA charges from April 2023, and thereby offset negative pension growth, is practical and very welcome. Our view is that this initiative will enable more NHS staff to make full use of the AA available to them, which is more closely aligned to the principle and intention of AA as a whole. While the minimum tapered AA has been raised from £4,000 to £10,000, it will still cause issues for those near that threshold who may avoid taking on additional work, or may reduce their substantive hours, so that they do not trigger it.

Fuel duties

The freeze on fuel duty is particularly welcome for community service providers, social care staff and GPs, whose staff have to use their own transport to make home visits and work in settings which often span large geographical areas, and who have been faced with financial repercussions from the sharp increase in fuel costs over the past year. That said, fuel costs still remain prohibitively high for many staff.

Lack of clarity on long term workforce plan

It was disappointing that the Budget gave no further detail on the long awaited long-term national workforce plan, other than a brief mention that the final plan will consider the supply of occupational health professionals. The Chancellor's commitment to "shortly" publish the long-term workforce plan which was made during the Autumn Statement 2022 and must include independently verified figures of how many staff are needed in which areas of the NHS and be fully funded.

Lack of clarity on the New Hospital Programme and plans to address RAAC

We are disappointed and concerned that the Budget did not help clarify government's plans to deliver the New Hospital Programme (NHP) or to address dangerous reinforced autoclaved aerated concrete (RAAC). Trusts currently part of the NHP require urgent clarity about the programme's scope, funding and schedule. The programme must be accelerated to enable more trusts to begin construction. Government must also provide funding to speed up the removal of RAAC planks from the NHS estate as a matter of urgency. It is currently unclear whether the government will allocate a separate funding stream for RAAC-affected trusts, and whether trusts with critical RAAC issues will join the NHP.

This Budget does nothing to address the wider need for capital investment across the NHS for providers of acute, mental health, ambulance and community services.

The need to resolve the pay dispute and end industrial action

The Budget documentation makes multiple references to the Prime Minister's commitment to bring NHS waiting lists down. We understand why many staff groups have reached the difficult decision to strike given pay has not kept pace with inflation. It is also the case that ongoing strike action is disruptive to patient care and threatens the NHS' efforts to reduce care backlogs including the elective recovery plan. This is a key reason why it is of urgent importance that government and unions reach agreed resolution to current industrial action.

As we continue to flag, the government must commit to fully funding any pay award uplift for 2023/24 taking into account the fact that an assumption of only 2.1% is accounted for within the current NHS budget and we expect any pay settlements to be higher.[3] It is important that government understands the potential impact on patient care should additional funding for a pay uplift be taken from within existing budgets. In this event, the NHS could be forced to make cuts to frontline services and reduce planned investment in primary care, mental health and cancer services.

Public spending set to be squeezed after the next general election

The Chancellor confirmed that day to day departmental spending is set to grow by only 1% a year on average after 2024-25, with capital budgets being frozen in cash terms. Whilst it is thought that the NHS budget may be "protected" from this target, public spending is expected to be considerably constrained in the next parliament which implies significant cuts for "unprotected" departments. This is concerning given the very immediate impact that under spending on wider public service (including housing, social care and public health) has on health inequalities and on demand for NHS services. Given the challenges the NHS estate is already facing, in our view, a freeze on capital budgets would be detrimental to delivering a health service fit for the future.

[3] In its written evidence to the Doctors' and Dentists' Remuneration Body (DDRB), DHSC highlights funding is available for pay awards up to 3.5% for staff groups that fall within the DDRB remit.