22 November 2023

on the day BRIEFING

Autumn Statement – November 2023

Overview

The Chancellor of the Exchequer Jeremy Hunt today delivered a pre-election Autumn Statement, with the stated aim to "get the economy growing, debt falling and return inflation to its 2% target". Key announcements included an increase in the national living wage, cuts to national insurance contributions and a commitment to maintaining the triple lock for pensioners.

In his speech the chancellor focussed on three key areas: progress made on the Prime Minister's economic priorities; growing the UK economy; and making work pay. While there were no announcements on health and social care in his speech, the chancellor reiterated his plans for "the public sector to increase productivity growth" by at least 0.5% each year.

This briefing outlines the key fiscal measures from the statement and a brief overview of the Office for Budget Responsibility (OBR)'s economic and fiscal outlook, including the implication for public spending after the current spending review period.

Economic overview – what does the Autumn Statement mean for the public finances?

The OBR published its Economic and Fiscal Outlook (EFO) alongside the Autumn Statement. The medium-term fiscal outlook has improved compared to the OBR's March forecasts, but it is important to note the challenging implications for public service spending in light of the chancellor's fiscal choices today.

Key points from the OBR's revised forecasts

Government borrowing forecasts revised downwards: Borrowing was £19.8bn lower in the first half of 2023/24 due to far stronger growth in tax receipts than the OBR initially forecast in March. This is due to higher inflation and earnings. The OBR also estimates borrowing will be £27bn lower in 2027/28 compared to previous forecasts. The chancellor is still on track to meet the government's fiscal rule of reducing debt as a share of GDP within five years' time.

Windfall used for tax reductions rather than uplifting public services budgets: Departmental spending plans after the current spending review (SR) period, which runs until 2024/25, have been largely unchanged. As we highlight in the next section, the windfall from higher-than-forecast tax receipts and lower borrowing will be spent on cuts to National Insurance contributions, tax write-offs for specific types of business investment, and welfare reforms.

CPI inflation continues to fall; public services inflation remains high: CPI inflation is expected to fall to 4.8% in Q4 2023/24, and the OBR expects inflation will fall to 2% by the end of 2024. Compared to March, the OBR believes the main drivers for inflation are internal pressures, such as a tighter labour market and a rise in nominal earnings, rather than the external pressures (such as the spike in energy prices) which the OBR was more worried about earlier this year. Related to this, the GDP deflator (used by government to measure inflationary pressures across public services more broadly) is expected to average 7% growth over 2023 and should then sharply fall in 2024.

Outlook for public services after current spending review period looks extremely tight: Inflation will erode the real terms increase in departmental expenditure limits (DELs) over the current SR period. After the current spending review, departmental revenue spending is set to grow by 0.9% in real terms, and capital spending is still expected to be fixed in cash terms. The real value of DEL spending is lower in each year of the forecast (compared to the OBR's estimates in March) because the cash increases are expected to be offset by higher inflation. Given this, the OBR notes that the outlook for departmental spending is a "significant and growing risk".

Real terms growth in the NHS budget after current SR period depends on significant increase in productivity growth: The OBR assumes that spending on the NHS (in England) will increase in real terms by 3.6% per year, in line with the long-run average real terms growth rate for the service between 1949/50 and 2022/23. However, given how tight the forecast growth is for public services spending after the current SR period, this will only be possible if major improvements in public sector productivity materialise. Public sector productivity is currently 5 per cent below 2019/20 levels.

The risk to public services is even starker for unprotected budgets: The OBR is particularly concerned about the outlook for unprotected government departmental budgets. If the defence and Official Developmental Assistance (foreign aid) budgets increase with the government's ambitions, then non-protected departmental budgets may have to be cut by an average of 4.1% per annum.

UK economy showing signs of weak growth: The OBR has downgraded the UK's GDP growth forecasts. The UK economy is still delivering relatively weak economic growth despite higher levels of net migration. Real GDP per person remains 0.6 per cent below 2019/20 levels and is expected to continue falling until the end of 2023/24.

Living standards have dropped sharply: The OBR estimates that household disposable income per person will be 3.5% lower in 2024/25 against pre-pandemic levels – this is the largest reduction in real living standards since ONS records began (in the 1950s).

Health and social care related announcements

The Autumn Statement was notably light on new public spending announcements, with the chancellor instead choosing to focus on tackling waste and inefficiency, and improving productivity, across public services.

Revenue and capital budgets have been updated to reflect the outturn position for 2022/23 and to include some adjustments for additional expenditure, including the NHS Long Term Workforce Plan (LTWP), the NHS Agenda for Change pay deal and an additional £200m of "winter" support announced earlier this year.

Revenue funding

	2022/23 (outturn)	2023/24 (forecast)	2024/25 (forecast)
DHSC revenue budget (£bn)	171.8	174.6	177.2
Of which NHSE (£bn)	155.1	161.1	162.5

Capital funding

	2022/23 (outturn)	2023/24 (forecast)	2024/25 (forecast)
DHSC capital budget (£bn)	9.9	12.1	12.6

Public Sector Productivity Programme

The chancellor reported on the progress of the Public Sector Productivity Programme, which aims to reform how public services are delivered to provide the best value for money for the taxpayer. In his speech, the chancellor outlined his ambition for the public sector to increase productivity growth by 0.5% a year.

The chancellor specifically mentioned the LTWP which is underpinned by an assumed labour productivity growth of 1.5%-2% annually. It is intended that this will be achieved through moving towards a more preventative model of care, by doubling the size of the community workforce, and harnessing technology (including AI) to give clinicians more time to focus on care, rather than administrative tasks.

In conjunction with the above measures to improve productivity, the government's audit of equality, diversity and inclusion (EDI) spending is ongoing. The government is considering introducing tighter ministerial scrutiny of EDI spending as well as streamlining EDI training and HR-related processes.

Investment in health research

The government announced £5m to support the formation of the Fleming Centre to tackle antimicrobial resistance (AMR). The government is also providing £51 million to the UK's largest health research programme to recruit volunteers and genotype the first 1 million participants.

Support for long-term sick and disabled people

Individual Placement and Support expansion

The government announced it will expand access to employment support services within community mental health teams through Individual Placement and Support (IPS). This should help reach an additional 100,000 people over the next five years.

NHS Talking Therapies

The Autumn Statement sets out an expansion in access to NHS Talking Therapies in England, which will make talking therapies available to an additional 384,000 people over the next five years, and will increase the number of sessions available to those that use the service.

Occupational Health

The government has announced it will establish an expert group to develop a voluntary minimum framework to set out minimum level of occupational health intervention employers can adopt to improve health at work.

Fit note reform

The chancellor announced the intention to reform the fit note process. There will be trials on how to make referrals to health and employment services easier, and how to improve digital access for patients. The government will launch a consultation in 2024 on wider reforms.

Other relevant announcements

National living wage

The government announced that from 1 April 2024, the National Living Wage (NLW) will increase to £11.44 an hour for eligible workers across the UK aged 21 and over.

National Insurance contributions

The chancellor announced that Class 1 employee National Insurance contributions (NICs) rates will be cut from 12% to 10% taking effect from 6 January 2024. Class 4 self-employed NICs will fall from 9% to 8% and Class 2 self-employed NICs will be abolished. This will take effect from 6 April 2024.

NHS Providers view

NHS Providers press statement setting out our response to the Autumn Statement is below:

Trusts feel the pinch as they strive to treat more patients with stretched resources

The government published the Autumn Statement of its tax and public spending plans today (22 November) and the Chancellor of the Exchequer outlined ambitions to increase productivity growth across the public sector by at least 0.5% per year,

Sir Julian Hartley, chief executive of NHS Providers, said:

"An NHS fit for the future needs the right numbers of staff, better supported social care, more beds and more investment in buildings and equipment to help to boost productivity and give patients top-class care.

"As Britain's biggest employer the NHS needs a healthy workforce. Improving the health of the population, including joined-up action to tackle the root causes of longstanding health inequalities,

must be a mission for the whole of government to help communities thrive and ease pressure on NHS services.

"Long waiting times for patients stem from years of severe workforce shortages - with more than 125,000 NHS vacancies today across England - and underinvestment in health services. And we are still waiting to learn how all of the ambitions in the Long Term Workforce Plan for the NHS, published in June, will be funded.

"If ministers want to see waiting times come down - a stated government priority – and productivity go up then hospital, mental health, community and ambulance services need significant capital injections to repair buildings and facilities and for digital transformation.

"Trusts recognise the need to manage public funds effectively and strive to make the most of every penny invested in the NHS to benefit patients, doing all they can to provide more first-class care and meet rising demand. Increasing productivity can't be a case of just asking already overstretched staff to do more with existing resources.

"Trust leaders tell us that they are seeing patients with multiple, often more complex, conditions. This can mean longer stays in hospital and take longer to reach diagnosis and ensure the right treatment.

"We need to see too the government and doctors' unions resolve disputes behind months of costly strikes which have got in the way of work to cut waiting lists further."

Our pre-Autumn Statement press release focused on the national productivity ask and outlines how trusts are working to ensure each pound of taxpayers' money is well spent.

Autumn Statement documents

Autumn Statement 2023
The Chancellor's speech
Office for Budget Responsibility Economic and Fiscal Outlook