13 March 2019

on the day BRIEFING

NHS Providers

Spring Statement 2019

Overview

The Chancellor delivered his Spring Statement against a back drop of political uncertainty, following the second defeat in Parliament for the Prime Minister's Brexit deal. Alongside an update on the overall health of the economy, the Chancellor delivered a warning that leaving the European Union without a deal will result in short- and long-term economic damage and made it clear that the forecasts and spending promises made today were dependent on securing a deal. He confirmed a Spending Review would start in the summer and conclude at the autumn Budget, with the prospect of a "deal dividend" which would come from increased business confidence and a fiscal boost, as less money will need to be set aside for the consequences of no deal.

Whilst maintaining the precedent set in 2016 for having only one fiscal event a year, the Chancellor took the opportunity to announce a few policies. These include an immediate ring fenced increase of £100m for the police in England to pay for additional overtime targeted specifically on knife crime and for new violent reduction units to deliver a wider cross-agency response. He also confirmed a consultation (now published) on the Government's approach to replacing PFI with new forms of private investment in public infrastructure.

This briefing outlines the economic headlines and NHS Providers' response for members' information.

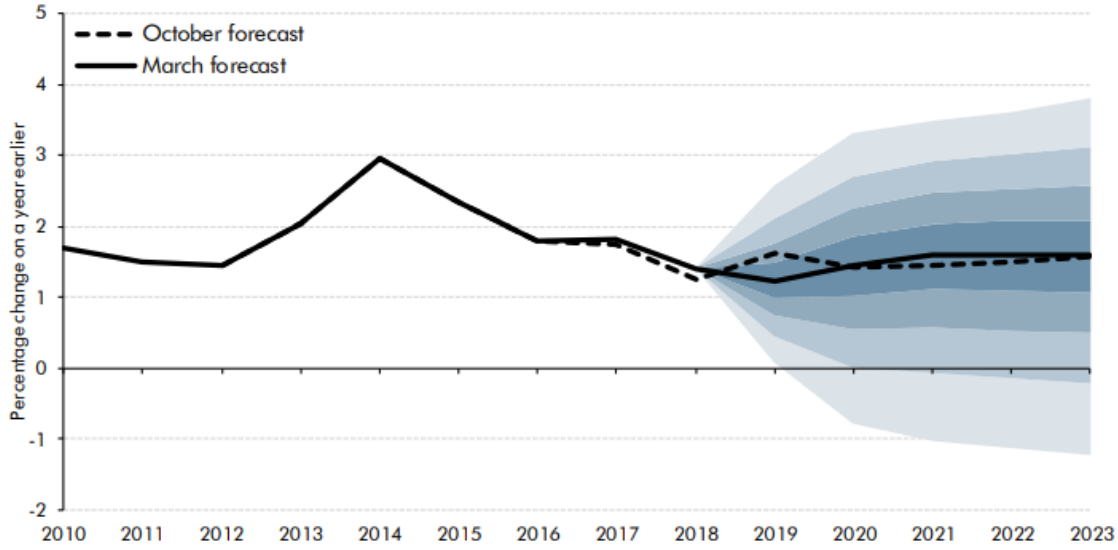
Economic overview

- Since October, the Office for Budget Responsibility (OBR) has downgraded the near-term GDP forecast (see Figure 1). This is primarily driven by a slowdown in UK and global economic growth, which grew more slowly than expected at the end of 2018. In addition, there is heightened uncertainty related to the UK leaving the EU. This means the forecast for GDP growth this year is down from 1.6% to 1.2%.

- There are several key assumptions underpinning the OBR's forecasts. They are that:
  - The UK leaves the EU in March 2019 with an orderly departure and a two-year transition period as per the Withdrawal Agreement.
  - Brexit uncertainty will continue in the near term.
  - Credit conditions remain highly accommodative.
  - Fiscal policy changes made since October will have a negligible impact on GDP forecasts.
  - The exchange rate remains in line with the OBR's October assumption.
  - Oil prices are significantly lower since October.
  - UK exports are expected to slow after 2018.

FIGURE 1

Real GDP growth fan chart

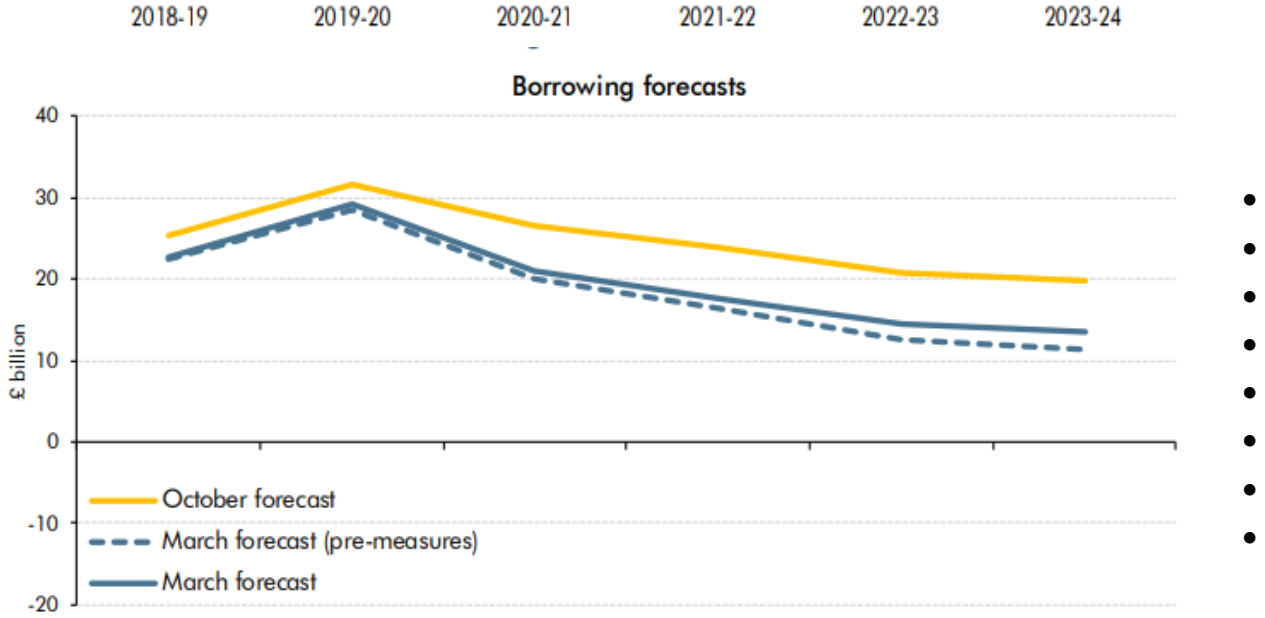


- Higher than expected income tax receipts and lower debt interest spending has improved the OBR's public sector net borrowing forecast (see Figure 2). The OBR expects public sector borrowing for 2018/19 to be at £22.8bn (1.1.% of GDP), down £2.7bn since October.

- Looking to the medium term, borrowing is forecast to continue to fall, with a £6.3bn improvement since October. The OBR is therefore forecasting a deficit of £13.6bn in 2023/24 (0.5% of GDP).

FIGURE 2

Public sector net borrowing: March versus October



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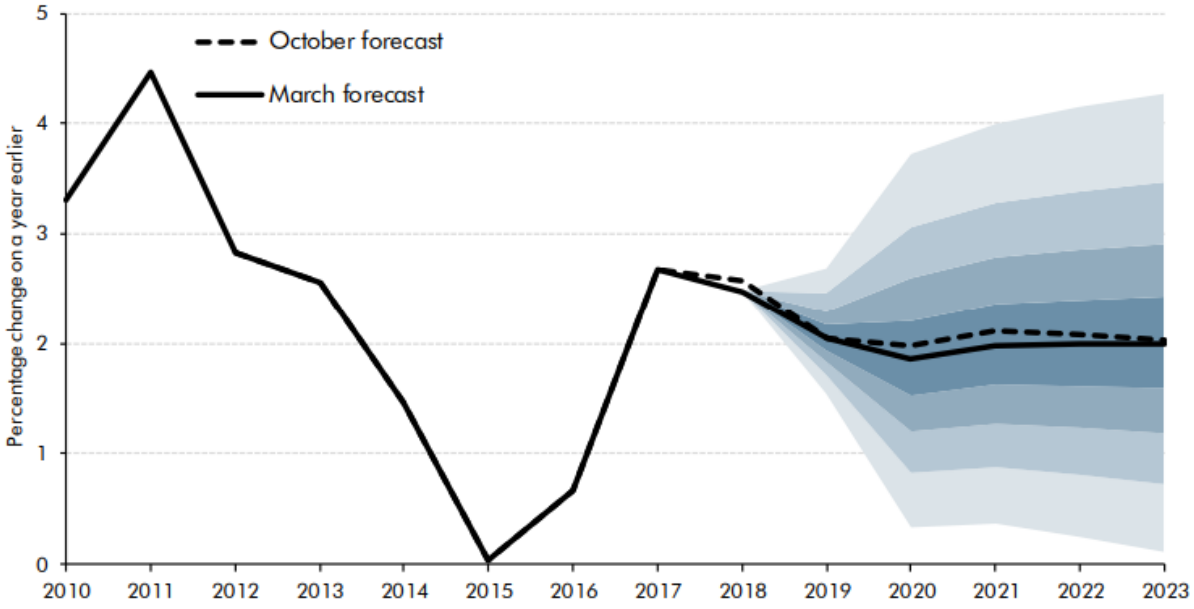
- The OBR expects an increase in productivity over the next five years, particularly as the labour market becomes "tighter" following the UK's exit from the EU, and the hope that reduced Brexit-related uncertainty will lead to more business investment. Output per head is expected to grow from 0.7% in 2018 to 1.3% in 2023.

- Inflation has been revised down since October, driven in part by a fall in oil prices and a weaker outlook for house prices. Consumer price inflation (CPI) averaged 2.3% in the final months of 2018, while retail price inflation (RPI) averaged 3.1% (see Figure 3).

FIGURE 3

CPI inflation fan chart



Press statement

NHS Providers press statement setting out our response to the Spring Statement is below and also accessible online here.

Responding to the Chancellor Philip Hammond's Spring Statement NHS Providers' director of policy Miriam Deakin said:

"We welcome the Chancellor's confirmation of a three year comprehensive spending review to be announced in the autumn, but this will be needed even if the UK leaves the EU without a deal. The additional £20.5bn revenue already committed to the NHS by 2022/23 is a generous settlement in the context of wider public spending, but in order to be effective it needs to be backed by an appropriate long term commitment to capital investment, workforce training and education and public health.

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"There is still no clear picture on how the government intends to deliver a sustainable plan and investment in social care, which is desperately needed to ensure that patients and those in most need can be given the long-term support and care they need. We look forward to the long delayed green paper on social care, which will set the government's approach on this vital issue.

"We look forward to looking in detail at the consultation on the proposals for an alternative to PFI and what the future arrangements will be for trusts with existing PFI contracts."

Useful links

The full text of the Chancellor's speech is available here.
The Written Ministerial Statement published alongside the Chancellor's statement is available here.
The Office for Budget Responsibility economic and fiscal outlook figures are available here.

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