Autumn statement 2022

Overview

Today the chancellor delivered the autumn statement the day after inflation hit a forty year high and on the day the Office for Budget Responsibility (OBR) confirmed that the UK is in recession.

Setting out the government's priorities as stability, growth and public services, while also protecting the most vulnerable, the chancellor set out his vision for the NHS. He said he wants the NHS to be Scandinavian in terms of quality and Singaporean in terms of efficiency, and that a strong NHS is essential to delivering a strong economy. Acknowledging that efficiencies alone will not address the impact of inflationary pressures, he announced that the NHS budget will increase by £3.3bn in each of the next two years.

This briefing outlines the key fiscal measures from the statement and our analysis of the implications for the health and care sector. We have also included a brief overview of the OBR's economic and fiscal outlook.

Economic overview

The OBR economic and fiscal outlook outlines the impact of the "global headwinds" adversely impacting the UK's public finances. The medium term fiscal outlook has deteriorated significantly since the OBR's last forecast in March 2022 given higher interest rates, a weaker economy and higher inflation rates.

The UK is currently in a recession as of this quarter and is expected to remain in recession until the end of next year. The UK economy is still expected to grow by 4.2% over this year before then falling by 1.4% in 2023. The OBR expects GDP to return to growth over the next three years by 1.3%, 2.6% and 2.7% respectively. Output should return to pre-pandemic levels in Q4 2024/25.

Inflation is eroding real wages and will reduce living standards by 7% over 2022/23 and 2023/24. This will wipe out the previous eight years' growth in income. CPI inflation is expected to peak at 11% in the current quarter (a forty year high). Inflation should then drop sharply in the middle of 2023 and return to its 2% target in 2027.

OBR forecasts the UK to borrow 7.1% of GDP in 2022/23 – this is a significant increase against the OBR's March 2022 forecasts. Five major fiscal interventions from three successive governments since March have created significant uncertainty. Over this period, government borrowing relative to the OBR's March forecast has increased against initial forecasts by £64.2bn in 2022/23 and £39.8bn in 2023/24. Higher borrowing is now expected to push underlying debt up significantly from 84.3% of GDP in 2021/22 to a peak of 97.6% in 2025/26.

The chancellor has also introduced two new fiscal rules – underlying debt should fall as a proportion of GDP by the end of a five-year rolling period, and public sector borrowing should fall to below 3% by 2027/28. The OBR expects the government to achieve both of these respective targets. However, the OBR notes the adverse impact of the rise in interest rates since March on servicing the UK government's significant debt. In addition, the OBR considers the main risks to the public finances to be an escalation of the war in Ukraine.

NHS spending announcements

Spending across public services

The autumn statement focused ensuring public services provide value for money for taxpayers by prioritising spending which will help to deliver further economic growth. The chancellor has maintained the departmental budgets in the cash terms set at last year's spending review.

Alongside spending on health and social care, education has also been allocated major additional funding by the government. The core schools budget will be provided with an additional £2.3bn of funding in both 2023/24 and 2024/25.

Revenue funding for the NHS and efficiency savings

	2022/23	2023/24	2024/25
DHSC revenue budget (£bn)	168.2	176.2	180.4
Of which NHSE (£bn)	152.6	160.4	165.9

- The Autumn Statement outlines £3.3bn of additional funding for each of the next two years (2023/24 and 2024/25) to support the NHS as it faces significant inflationary pressures.
- After this spending review period, the Department of Health and Social Care's resource spending is expected to grow at only 1% a year in real terms.
- The additional £6.6bn has been allocated to ensure the NHS improves performance back to pre-pandemic levels across urgent and emergency, elective and primary care. NHS England will publish recovery plans to deliver on key objectives, including:
    - an improvement to category 2 ambulance response times to 30 minutes on average over 2023/24, with the overall aim of returning to pre-pandemic waiting times in 2024/25;
    - annual improvements of A&E waiting times over 2023/24 and 2024/25;
    - ensuring patients who require an appointment with a GP can receive one within two weeks, with urgent appointments available on the same day.
- The elective recovery plan published in February will continue to be delivered. NHS England will examine further opportunities to increase patient choice at both the point of referral and further along the patient pathway between NHS and private sector providers.
- Additional funding has not been provided to the NHS without further commitments to minimise waste and inefficiency. The NHS will be subject to a cross-departmental efficiency and savings review to source additional efficiency savings and divert spending away from lower-value programmes. The government maintains that savings will be reinvested back into public services. An update on this exercise is expected in spring 2023.

Capital funding

The government confirmed that capital budgets announced in the October 2021 spending review will be maintained. In addition, following the end of the spending review period, departmental capital spending will be continued at the same level in cash terms.[1] There is no indication at this point that the government expects departments to raid capital budgets to top-up revenue budgets.

	2022/23	2023/24	2024/25
DHSC capital budget (£bn)	12.0	11.7	12.6

[1] The capital profile for 2022/23 – 2024/25 appears higher than outlined at SR21 due to the reclassification of leases as part of the IFRS16 accounting standards. This does not represent an uplift in public sector gross investment.

The government has also pledged the new hospital programme will be delivered and funded as per previous commitments.

The government has reaffirmed its commitment to deliver £600bn of infrastructure projects on rail connectivity, digital infrastructure, energy efficiency and levelling up, as initially outlined in its Build Back Better plan in 2021. Furthermore, investment in research and development is set to increase to £20bn a year by 2024/25

Health and social care related announcements

Local government and social care funding

The chancellor acknowledged that many of the challenges facing the NHS' performance were inextricably linked to social care. With that in mind, the government has announced that £2.8bn in 2023/24 and £4.7bn in 2024/25 will be made available to help support adult social care and ensure that medically fit patients can be discharged from hospital.

The additional amount provided to adult social care is made up of £1bn in new funding in 2023/24 (£1.7bn in 2024/25), removing legislation which restricts local government's ability to increase council tax and delaying the social care charging reforms put forward by Sir Andrew Dilnot to October 2025. Funding to support the social care sector will be distributed as follows:

- £600m in 2023/24 (and £1bn in 2024/25) allocated via the better care fund which will help support the discharging of patients to lower-cost care settings and ensure hospital capacity remains available for patients who require greater attention;
- £1.3bn in 2023/24 (and £1.9bn in 2024/25) distributed via the social care grant to local governments to support adult and children's social care;
- £400m in 2023/24 (and £680m in 2024/25) flowing through a ringfenced social care grant to support the discharge of patients from hospitals.

Workforce: long-term workforce plan and Ockenden review

The government announced that the Department for Health and Social Care (DHSC) and NHS England will publish a long-term NHS workforce plan next year which will set out independently-verified forecasts of the resources the NHS needs over a 5, 10 and 15 year period. The plan will focus on the training, recruitment and retention of doctors, nurses and other health professionals as well as measures which will help to improve the overall productivity of the NHS workforce.

The government has also confirmed it will implement the recommendations supported by the Ockenden Review to improve maternity services through recruiting 2,000 more midwives.

Independent review into integrated care boards

The Autumn Statement came with a further announcement that Rt Hon Patricia Hewitt, former Secretary of State for Health and current Chair of NHS Norfolk and Waveney ICB, will lead an independent review into the efficiency, autonomy and accountability of integrated care boards.

Review of Energy Bill Relief Scheme (EBRS)

HM Treasury will review the EBRS to outline the support available for businesses after 31 March 2023, and publish findings by 31 December 2022. The government has announced that this review will exclude public sector organisations but has yet to announce what support will be made available to the public sector following the end of the current EBRS period.

Taxation

To offset the £55bn fiscal deficit, the Autumn Statement contains a number of changes to taxation including:

- The income tax personal allowance of £12,570 and the higher rate threshold of £50,270, alongside the national insurance thresholds will be frozen at their current levels until April 2028. These had previously been frozen until April 2026.
- The threshold at which the additional rate of income tax (45%) will be applied has been reduced from £150,000 to £125,140.
- The threshold at which employers begin to pay national insurance for their employees will be frozen at £9,100 until April 2028.
- The government announced that the dividend allowance will be reduced in incremental stages to £500 by April 2024 and the capital gains tax annual exempt amount will also be incrementally reduced to £3,000 by April 2024. It is expected that these measures alone will raise approximately £1.2bn a year from April 2025.
- Local authorities will be granted further flexibility to enable them to increase council tax levels. This will be administrated by increasing the referendum limit to 3% per year from April 2023. Local authorities (with social care responsibilities) can also raise the adult social care precept by up to 2% per year.

Cost of living measures

The Energy Price Guarantee (EPG) will be maintained for households throughout this winter. However, the government will reduce the level of support available to households. A typical household will now be paying £3,000 per annum between April 2023 and April 2024. This measure is set to save £14bn of government spending in 2023/24.

Targeted support will be provided to the most vulnerable households via 'cost of living' payments. Households on means-tested benefits will receive an additional £900 cost of living payment in 2023/24. All pensioners will receive an additional £300 cost of living payment and those receiving disability benefits will be entitled to an additional £150 disability cost of living payment. The timing of the payments has not yet been confirmed

The chancellor also confirmed that the state pension and benefits will rise in line with inflation by 10.1% this year.

NHS Providers view

Funding to increase activity

NHS Providers values the government's recognition that a strong economy demands strong public services. Today's announcement of £3.3bn for the NHS over each of the next two years is a welcome sign that the Treasury has heeded warnings from frontline NHS leaders. The extra money will go some way towards making up the shortfall in NHS budgets caused by inflation and allow the NHS to deliver on its key priorities. Trust leaders also realise the NHS has been given a relatively generous settlement compared to the wider sector within this Autumn Statement.

Trust leaders will have heard the chancellor's call for efficiency savings and demands to eliminate waste. The provider sector is firmly focused on delivering sustainable and recurrent efficiency savings, via both organisational and system based approaches to reducing costs and improving productivity. Trusts are working collaboratively to address the productivity drag which is preventing them from significantly increasing activity to pre-pandemic levels. The sector awaits further detail about the forthcoming independent review of integrated care boards and its focus on more efficient use of healthcare resources.

The additional funding for the NHS announced in the statement for 2023/24 and 2024/25 is meant to improve performance across emergency, elective and primary care. However, trusts and systems face significant operational challenges including workforce shortages, increased activity to tackle backlogs, and ongoing Covid-19 pressures, all of which are creating major cost pressures. While trusts will rise to the challenge to expand capacity, as the Health Foundation has shown the NHS has faced years of underinvestment in which health spending has fallen below that of comparable European countries, impacting the resilience of the service.

Capital

It is welcome news that the government has not asked departments to raid their capital budgets to top-up their day-to-day spending. Vital capital investment must remain available at both the national and system level. In addition, while trusts that are part of the New Hospital Programme (NHP) will welcome the government's commitment to the programme, there have been major delays to the scheme, turbulence across the financial and construction markets inflating costs, and it is unclear whether the NHP's capital envelope will enable all trusts to deliver their projects as expected.

Workforce plan

The chancellor's commitment to publish a comprehensive workforce plan including independent assessment of NHS workforce needs next year is welcome. This morning, over 100 health and care organisations – including NHS Providers - wrote to the chancellor asking for this and we are pleased our voices have been heard. As a next step, it is essential that this assessment is published in full with an explicit commitment to provide the necessary funding to enact its findings.

Whilst this is a welcome step forward for the NHS workforce, the lack of any commitment in the Autumn Statement to address the effects of punitive pension taxation rules for high earning NHS staff is disappointing. During her tenure as Secretary of State for Health and Social Care, Thérèse Coffey had planned to consult on several proposed flexibilities for NHS pensions this autumn. No such consultation has yet been forthcoming, and no commitment to addressing the underlying causes of the issues has been made by government. This demands urgent action from HMT and DHSC if the NHS is to retain its most senior staff. NHS Providers will continue to lobby for a long term solution for NHS pension issues.

Cost of living pressures

While there is much trust leaders can welcome in today's Autumn Statement, they are also keenly aware of the extremely challenging state of wider public finances. The impact of double digit inflation will exacerbate the cost of living crisis and, consequently, exacerbate the pressures facing the NHS. Trust leaders remain worried about the impact of cost of living pressures on the mental, physical and financial wellbeing of their staff. For example, as we highlighted in our recent cost of living survey, trusts are concerned about staff struggling to afford to eat while they are on shift, and the health impact on staff who will live in cold homes in winter.

Social care

While additional funding for social care is similarly welcome, delaying the charging reforms put forward by Sir Andrew Dilnot is a backwards step away from meaningful social care reform, which will continue to leave many people facing unpredictable care costs. Trust leaders are seeing daily how years of under-investment in social care has knock on effects for the NHS with thousands of people staying in hospital longer than needed. We need radical action – and fast.