Spring Budget – March 2024

Today the Chancellor, Jeremy Hunt MP, delivered his Spring Budget. This briefing outlines the key fiscal measures from the statement and an overview of the Office for Budget Responsibility's economic and fiscal outlook, including the key announcements for the health and care sector. If you have any questions, please contact Georgia Butterworth, Senior Policy Manager.

Overview

With health and the cost of living consistently polled as the most important issues facing the country, the government is looking to put clear blue water between themselves and Labour as we look ahead to the next general election. Tax, and the implication that the opposition is a party of high taxation, is hoped to be a vote winner by the Conservatives. Recent polling by Ipsos found the Conservative Party at its lowest level of support (20%) since they began regular polling in 1978.

In his Budget speech, the Chancellor sought to balance pressure from Number 10 and Conservative backbench MPs for tax cuts, his own fiscal rules, the lack of public appetite for reductions in public spending, and the implications of the broader electoral and polling context. He argued in his speech that progress made in growing the economy meant he could introduce a "permanent tax cut", reducing national insurance contributions by 2p. He also said that the country "need[s] a more productive state not a bigger state", and that it is unfair to ask taxpayers to pay more when productivity has fallen in the public sector.

Health and social care related announcements

The Chancellor announced a £2.5bn revenue funding increase for the NHS in 2024/25, a £3.4bn increase in capital funding for NHS technological and digital transformation over three years from 2025/26 and £35m over three years from 2024/25 to improve maternity safety.

Revenue funding

The £2.5bn revenue funding increase for the NHS will protect current funding levels in real terms and support the NHS to continue reducing waiting times and improve performance.

	2022/23 (outturn)	2023/24 (plan)	2024/25 (plan)

DHSC revenue budget (£bn)	171.8	178.5	179.6
Of which NHSE (£bn)	155.1	163.2	164.9

Capital funding

The £3.4bn additional capital funding will double the NHS' investment in digital over the next three years and will be split across the following areas:

- £1bn to transform the use of data to reduce time spent on administrative tasks e.g. pilots to test the ability of artificial intelligence (AI) to automate back-office functions
- £2bn to update outdated IT systems e.g. ensuring all trusts have electronic patient records, upgrading MRI scanners with AI and digitising transfers of care
- £430m to transform access for patients e.g. making the NHS App the single front door through which patients can access NHS services and manage their care.

The government estimates this will unlock £35bn in productivity savings from 2025/26 to 2029/30, and will convene an external expert advisory panel to support delivery.

	2022/23 (outturn)	2023/24 (plan)	2024/25 (plan)
DHSC capital budget (£bn)	9.9	11.0	12.6

Productivity

The government announced next steps on the Public Sector Productivity Programme and committed £4.2bn of funding, including the additional £3.4bn capital funding for digital and technology in the NHS. In return, the NHS has committed to 1.9% average productivity growth from 2025/26 to 2029/30, rising to 2% over the final two years. This delivers at the upper end of the 1.5-2% ambition over 15 years set out in the NHS Long Term Workforce Plan last year. It is estimated that this will enable delivery of £35bn of cumulative savings by 2029/30. This represents a substantial increase on historical NHS productivity growth.

NHS England will start reporting against new productivity metrics regularly from the second half of 2024/25 at a national, integrated care board and trust level. New incentives will be introduced to reward providers that deliver productivity improvement at a local level. Further detail will be set out in the summer.

The government will also work with NHS England to reduce the costs of agency staffing, including ending the use of expensive "off-framework" agency staffing from July 2024. Alongside this, NHS England will introduce a wider set of measures to review agency price caps, tighten controls and rules around agency staffing, and improve transparency.

The government has framed the NHS productivity plan as a "blueprint for other parts of the public sector to adopt" and is investing £800m in wider public services (including the police and justice system) to drive productivity growth. Relevant government departments will develop detailed productivity plans in the run up to the next spending review, which will put in place a public sector productivity improvement strategy.

Maternity care

The Chancellor also announced £35m investment over three years from 2024/25 to improve maternity safety across England. This will fund several measures, including the roll out of the Avoiding Brain Injuries in Childbirth Programme and Maternity and Neonatal Voice Partnerships.

Other relevant announcements

National insurance contributions: The Chancellor announced that Class 1 employee national insurance contributions (NICs) will be cut from 10% to 8% taking effect from 6 April 2024. The government will also make a further 2p cut to the main rate of self-employed national insurance (on top of the 1p cut announced in the Autumn Statement), taking Class 4 NICs to 6% from 6 April 2024.

Alcohol duty: The alcohol duty freeze has been extended until 1 February 2025. This extends the six-month freeze announced in the 2023 Autumn Statement. This will result in 2p less duty on an average pint of beer, 1p less duty on an average pint of cider, 10p less duty on an average bottle of wine, and 33p less duty on an average bottle of spirits than if the planned duty increase had gone ahead.

Vaping/tobacco duty: The government is introducing a new duty on vaping and increasing tobacco duty from October 2026. The new vaping tax will raise £445 million in 2028-29, and is part of the government strategy to discourage young vapers and create the first smoke-free generation.

Medical research funding: The government announced £45m of additional funding for medical charities' research agendas, including £3m for Cancer Research UK.

Fuel duty: The government is maintaining the rates of fuel duty at current levels for a further 12 months, through extending the temporary 5p cut and cancelling the planned increase in line with inflation for 2024-25.

Local authority funding: The £500m of new funding for councils to support the provision of adult and children's social care, announced on 24 January, was confirmed.

Benefits and supporting households: In the 2023 Autumn Statement, the government announced benefits uprating and further cost of living support for 2024-25. Working age benefits will be uprated by the September 2023 CPI of 6.7% from April 2024. In 2024-25, 5.5 million households on Universal Credit will gain £470 on average.

Economic overview

The Office for Budget Responsibility (OBR) published its *Economic and Fiscal Outlook (EFO)* alongside the Chancellor's Spring Budget. Overall, the medium-term fiscal outlook has remained relatively similar to the OBR's forecasts in November, with the Chancellor once again prioritising tax cuts over public services spending.

Key points from the OBR's revised forecasts

Consumer price index (CPI) inflation forecasts revised downwards: CPI inflation in the final quarter of last year was 0.6 percentage points lower than the OBR's November forecast at 4.2%. The OBR is forecasting inflation will fall faster than its previous forecasts to average at 2.2% over 2024 and 1.5% over 2025. Larger than anticipated falls in energy prices is the primary driver of lower inflation forecasts. As with CPI inflation, GDP deflator (used by government to measure inflationary pressures across public services) growth is expected to slow over the short term, with the OBR forecasting 1.5% growth in 2024 and 1.2% growth in 2025 – around 0.5 percentage points lower than its November forecast.

Government borrowing slightly lower than forecast over the short-term: Borrowing is forecast to be £10.1bn lower this year and £10bn lower over each of the next two years as a result of lower inflation and reducing interest rates. However, lower inflation will also result in lower tax receipts over the medium term, meaning overall borrowing by the end of the forecast period will only be £0.8bn lower than the OBR's November forecast.

'Fiscal rules' met by a razor thin margin: The Chancellor remains on track to meet the government's fiscal rule to have debt falling as a percentage of GDP by the end of the forecast period. However, the margin by which this fiscal rule will be met (the "fiscal headroom") has reduced from £13bn in November to £8.9bn, mostly as a result of the Chancellor's policy measures.

Public services spending outlook remains challenging: The Chancellor held firm on his commitment for total revenue spending to increase by 1% in real terms, and capital spending is expected to be frozen in cash terms. However, the OBR continues to assume that spending on the NHS will grow by 3.6% a year in real terms, in line with the long-run average real terms growth rate between 1949/50 and 2022/23. Given how constrained the projected growth is across wider public services, the reality is that “unprotected” departments will see revenue spending fall by 2.3% a year in real terms from 2025/26.

Living standards expected to rebound more quickly than forecast in November: 2022/23 saw the largest recorded year-on-year drop in living standards, but the OBR now expects living standards to largely recover to their pre-pandemic peak by 2025/26, two years earlier than its November forecast. Living standards are expected to recover more quickly as a result of the energy price shock unwinding more quickly and fully than anticipated.

Economic growth expected to be slower over near-term but improve towards latter half of the decade: The OBR notes that total GDP only grew by 0.1% over 2023, 0.4 percentage points lower than its November forecast. GDP growth is expected to rise over 2024 to 0.8% as interest rates will fall and real household incomes recover, before rising to a peak of around 2% over the middle of the forecast period. The OBR notes there are significant risks to the medium-term growth forecasts, with overall productivity growth remaining uncertain.

NHS Providers view

NHS Providers’ press statement setting our response to the Spring Budget is below.

Trusts welcome ‘temporary respite’ following NHS funding boost
“The chancellor had a key opportunity to put NHS finances back on track today after a year in which high inflation, disruptive industrial action, and rising demand for care have left gaping holes in trust budgets. After dire warnings of NHS spending cuts earlier this week, today’s announcement of an extra £2.5bn for day-to-day NHS spending will offer much needed - but temporary - respite from these financial pressures.

“Leaders across the NHS want nothing more than to provide high-quality patient care and improved services.

“But to do this, they need to see long-term, multi-year investment in the health service which allows health leaders to plan for the future instead of this stop-start approach to NHS funding which leaves them constantly worrying about budget cuts followed by quick-fix, short-term funding announcements.

“They will be pleased though, that the chancellor has finally heard their calls for more investment in digital and technology in the NHS, which has the potential to transform healthcare for patients, improve access to services and free up staff time.

“Trust leaders and their teams are pulling out all the stops to ramp up NHS productivity and today’s £3.4bn investment will give them a much-needed boost.

"But they also need politicians from all parties to recognise overstretched staff are already working incredibly hard to treat patients with increasingly complex conditions within existing resources and in the face of relentless demand.

"We also need to see a boost in capital investment alongside wider access to strategic capital investment across acute, specialist, mental health, ambulance and community services to fix the record-high maintenance backlog and the deteriorating NHS estate in which staff are working and patients are being treated.

"Trust leaders are also acutely aware that while the Budget offers the NHS some breathing space, their highly valued partners across local government and social care are facing major funding crises.

"They know that the long-term financial sustainability of the NHS is dependent on investment in wider public services- such as public health and social care- which are vital to improving the public's health and support economic productivity. It's vital we get public finances on a stable footing so that the public get the health and social care services they deserve."

Please see the following link for our pre-Budget submission to HM Treasury.

Spring Budget documents

Spring Budget 2024
The Chancellor's speech
Office for Budget Responsibility's Economic and Fiscal Outlook