



# What does the autumn statement mean for public services?

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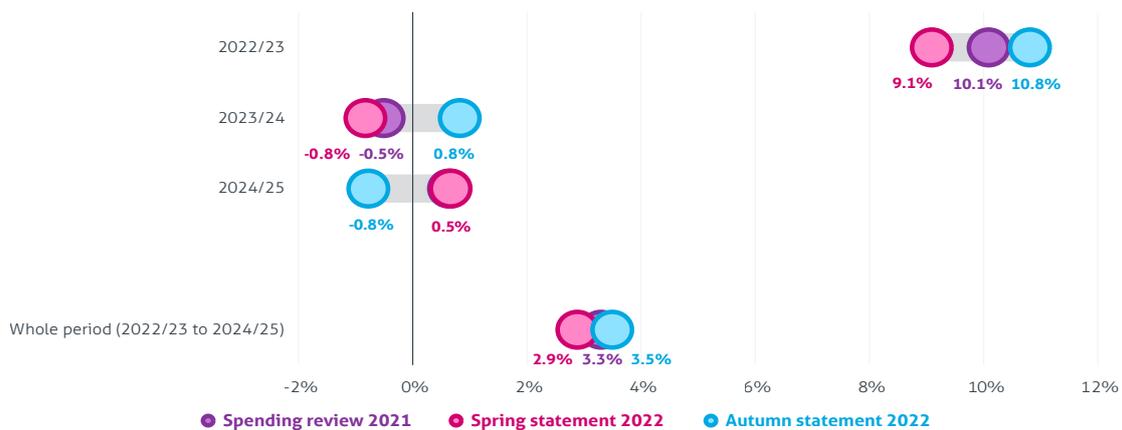
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The autumn statement delivered by Jeremy Hunt on 17 November was the first major economic statement from the Rishi Sunak government and was, by the chancellor's own admission, a budget in all but name. Against a backdrop of record backlogs in public services and widespread public sector pay disputes, this short paper assesses what Hunt's plans mean for four key services – the NHS, schools, the criminal justice system and local government – in this parliament and into the next.

## Did the statement deliver enough funds to maintain standards and address backlogs over the rest of this parliament?

The chancellor said that the Conservatives wouldn't "leave our debts to the next generation". While that may or may not be true, it is certainly the case that this government has largely left its fiscal consolidation to the next parliament. Hunt provided some additional funding in the next two years for schools, the NHS and social care, but £22 billion of cuts across all day-to-day spending have been pencilled in for 2025/26 to 2027/28 – after the next general election, which will be in January 2025 at the latest.

Figure 1 **Average annual real increases in departmental day-to-day spending 2022/23 to 2024/25 at different fiscal events**



Source: Institute for Government analysis of HM Treasury, spending review, October 2021; spring statement, March 2022; and autumn statement, November 2022, supported by CIPFA. Notes: Figures adjusted for inflation using the GDP deflator.

After the autumn statement, the overall settlement for day-to-day departmental spending across the current spending review period (2022/23 to 2024/25), accounting for the changing inflation forecast, looks broadly comparable to the original announcement in October 2021, which many commentators described as generous.

However, looking only at the *average* increase in spending across the spending review period, adjusting for measured economy-wide inflation (using the GDP deflator, which is the measure of inflation used by the government to assess real-terms increases in departmental spending), provides an overly rosy impression, for two reasons.

First, the increases are front-loaded. Overall day-to-day spending is due to increase by 10% in 2022/23 (the current year), but will barely increase, in real terms, over the next two years. In October 2021 there was good rationale to provide more money to departments sooner, to help deal with disruption in the aftermath of the pandemic, namely backlogs in many key public services. But that money has not been enough to transform performance this year – as our [2022 edition of Performance Tracker](#), produced with CIPFA, showed – so it is unlikely that much tighter spending settlements over the next two years will do so.

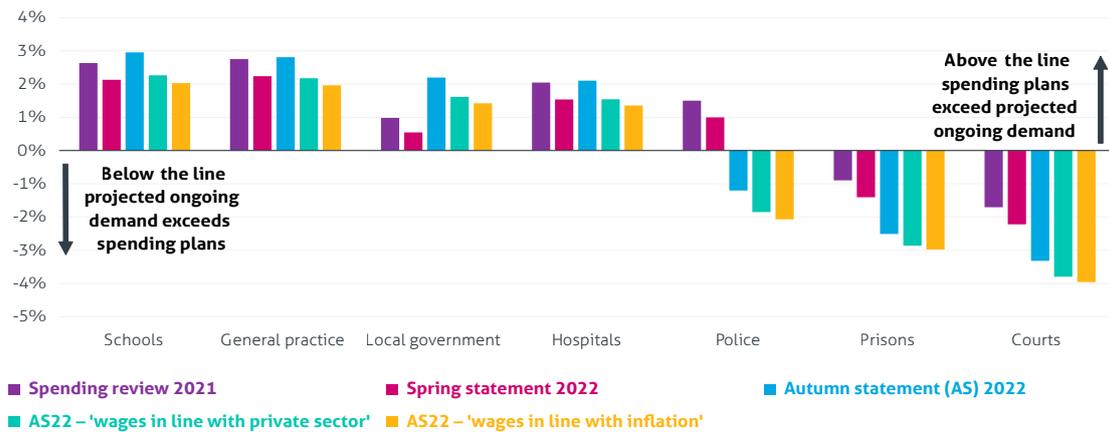
Second, the GDP deflator is likely to understate the costs facing departments over the next few years. It excludes the costs of imports and so shows much lower inflation than the consumer price index (CPI) measure of inflation typically used for households (although this would likely overstate cost pressures if used for public services as they spend a much lower share of their budgets on energy and food, which are increasing fastest.)

But more than half of public sector budgets are accounted for by pay. If pay were to increase in line with forecast private sector wages – which in the past decade has tracked closer to CPI even if not forecast to match it this year – those greater costs would imply smaller increases in public services’ spending power; pay increasing in line

with household inflation even more so. And it is probable that the estimates for the GDP deflator and CPI being used by the government will prove to be too low as they imply the Bank of England overshooting its inflation target – that is, bringing it down to below the intended 2% – by a large margin.

Any attempt to hold down pay, especially below those increases in the private sector, is likely to worsen already serious recruitment and retention problems across public services. It would also risk more widespread strike action than has already been threatened.

Figure 2 **Average annual increases in spending between 2021/22 and 2024/25 relative to demand under different inflation scenarios**



Source: Institute for Government analysis of HM Treasury, spending review 2021, spring statement 2022 and autumn statement 2022, supported by CIPFA. Notes: Wages in line with private sector assumes increases in line with Bank of England average earnings from 2023 onwards. Wages in line with inflation assumes increases in line with OBR CPI from 2023 onwards. Full details on data sources are provided in the *Performance Tracker 2022* Methodology chapter.

Those factors mean that, while the headline figures might imply relatively generous settlements for public services, the reality is that from this year services are unlikely to see further large budget increases to deal with poor performance and an increasing share of their budgets will need to be spent on higher pay awards to keep services functioning. The scale of existing problems, likely growth in demand and the generosity of spending settlements, differ across public services, meaning some will be in a better financial position than others over the next few years.\*

The services that received extra money in the autumn statement – hospitals, general practice, schools and local government – should now have sufficient money to meet ongoing demographic demand and inflationary pressures over the spending review period. But they will struggle to do much more than that. In each, performance is currently far below pre-pandemic levels and the money provided is unlikely to be sufficient to return them to those levels, especially in hospitals, where elective backlogs are likely to remain far above where they were in 2019.

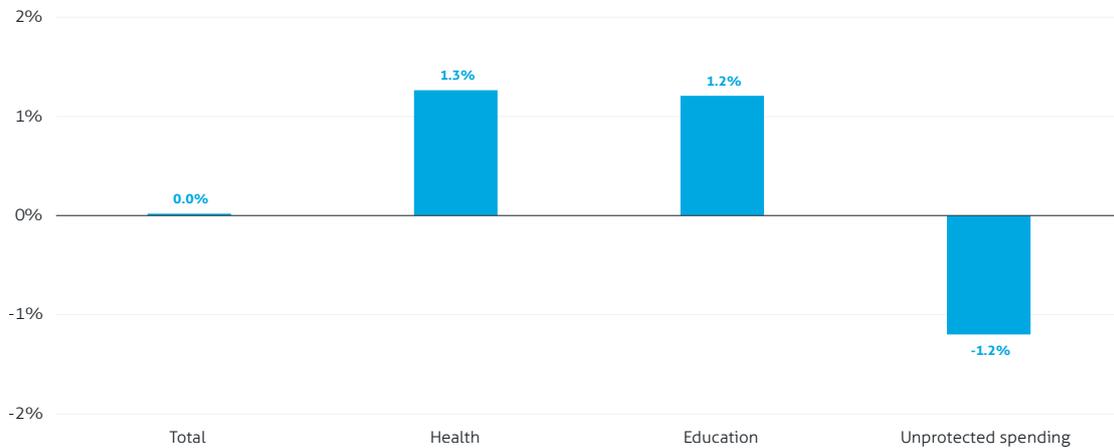
\* Six of the nine public services we cover in *Performance Tracker* are those that benefited from additional spending in the autumn statement. This does not cover all public service spending.

As such, even maintaining performance in these services might prove difficult. Fixing recruitment problems and averting widespread strikes may require not only pay rises linked to inflation but even exceeding it – to compensate in the first instance for sharp falls in real earnings in 2022 but also for a decade of public pay restraint before that. But even if the pay issue can be resolved without significant cost, service performance in these areas is still likely to fall short of the public’s expectations, with budget increases standing at a relatively meagre 1% per year in real terms over the next two years.

The picture for services that did not receive any additional funding is even starker. Overall, unprotected day-to-day spending is projected to fall by 1.2% per year over the next two years (see Figure 3). This is nearly twice as much as the 0.7% cut penciled in for 2025/26 to 2027/28.

Criminal justice services did not receive any additional funding in the autumn statement but spending across the next two years is due to increase by 0.9%. However, as shown in Figure 2, demand is likely to outstrip spending by a sizeable margin. Prisons and courts are in a particularly dire state, with problems felt before the pandemic badly exacerbated by it, and the spending decisions announced in the autumn statement mean there is little prospect of making meaningful reductions to the crown court backlog or of safely housing the expected increase in prisoner numbers.

Figure 3 **Average annual increase in real day-to-day spending between 2022/23 and 2024/25 announced at autumn statement 2022**



Source: Institute for Government analysis of Office for Budget Responsibility, Economic and fiscal outlook and HM Treasury, autumn statement, November 2022.

Police spending is set to fall in real terms over the spending review period, but that follows a very large increase up to 2021/22 to help deliver extra police officers. Overall, police should have enough funding to return to pre-pandemic performance but, as discussed below, there are other reasons to think that is unlikely.

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## The NHS

Performance was declining in the NHS for years before 2020,<sup>1</sup> but the onset of the pandemic served to exacerbate those problems. The result is a health service that is struggling to return to pre-pandemic levels of activity, despite higher spending and staffing numbers than in 2019.<sup>2</sup> This winter will likely see these problems worsen, as the NHS confronts the dual problem of rising Covid cases and a worse-than-usual strain of flu.<sup>3</sup>

The relatively generous spending increase that the government gave the NHS in the 2021 spending review has been eroded in the last year, as the service has dealt with rising costs associated with an unfunded pay increase (costing £1.8bn<sup>4</sup>), inflationary pressures and the ongoing burden of Covid, which the service estimates will add £4bn of cost in 2022/23 and £7bn of cost in 2023/24.

The government announced that it will provide an additional £3.3bn – an increase in day-to-day spending of approximately 2% compared to the 2021 spending review – in both 2023/24 and 2024/25. The government intends the NHS to spend this money on achieving three outcomes: faster ambulance response times, lower A&E waiting times, and improved access to general practice.<sup>5</sup> The additional funding should cover growth in demand from demographic change but, given current and likely future cost pressures, will not be enough to resolve backlogs and unmet need in elective, primary and community care (particularly if the NHS continues to struggle to increase activity). All of these have the potential to prevent improvement in the three areas that the government highlighted.

Reduced productivity is a key problem in the NHS. As such the appointment of Patricia Hewitt, a health secretary in the Blair government, to undertake a review of integrated care systems (ICSs) – which includes a remit to assess how oversight of ICSs could be changed to improve efficiency – is welcome. Similarly, increases in spending on adult social care should help tackle the problem of delayed discharges from hospitals, further aiding NHS productivity, allowing more patients to be treated.\*

Staffing is another, and arguably the biggest, problem. There is currently a shortage of 12,000 hospital doctors and 50,000 nurses and midwives in England,<sup>6</sup> and the NHS vacancy rate is the highest on record. To that end, it is positive that Hunt used the autumn statement to announce that the health department and NHS England will publish an “independently verified plan for the number of doctors, nurses and other professionals we will need in 5, 10 and 15 years’ time”<sup>7</sup> – a recommendation that the Institute for Government and Chartered Institute of Public Finance and Accountancy (CIPFA) made in our recent *Performance Tracker*<sup>8</sup> – though it announced no additional funding for this. It will not, however, resolve the immediate staffing crisis, something that should be the focus of government and NHS attention in coming months.

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\* Awaiting social work allocation, assessment or completion of assessment is the most common reason for delayed discharges. Other wider system issues and hospital-specific issues are also major contributors to delays. See Marinova M, McKenzie Bell L, Watkin S and Bell D, 'A prospective audit of bed utilisation and delays in care across London', *Journal of the Royal College of Physicians of Edinburgh*, 2020, no. 50, pp. 365–71, [www.rcpe.ac.uk/sites/default/files/jrcpe\\_50\\_4\\_marinova.pdf](http://www.rcpe.ac.uk/sites/default/files/jrcpe_50_4_marinova.pdf)

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However, it is very unlikely that the NHS will be able to resolve its recruitment and retention problems with the funding allocated in the autumn statement. Although this should be enough to meet future inflationary pay rises, current (and future) inflation is only one part of the pay disputes that have arisen. It will not reverse the real-term cuts in pay experienced by staff over the past decade and which, for example, members of the Royal College of Nursing (RCN) have already voted to take strike action in pursuit of a pay rise of 17.6% – an amount the government will almost certainly reject.<sup>9</sup>

## Schools

The closure of schools to most pupils for periods of the pandemic has resulted in reduced attainment. The percentage of pupils meeting the expected standard in reading, writing and maths at the end of primary school was down from 65% in 2019 to 59% in 2022.<sup>10</sup> And at secondary level the gap between disadvantaged and non-disadvantaged pupils increased in 2022 to its widest point since 2012.<sup>11</sup> The government is also struggling to train teachers in all subjects in which they are needed, while schools have expressed concern about what rocketing inflation has done to their budgets. Therefore the announcement of additional cash for schools in the autumn statement has been well received.

The core schools budget – covering 5–16 education, plus attached early years and post-16 provision – stands at £53.8bn for 2022/23. The increase in the autumn statement was described by Hunt as a £2.3bn funding boost to it for each of the 2023/24 and 2024/25 financial years. But given the Treasury had previously said it would withdraw support for schools relating to the (since dropped) health and social care levy from April 2023, this in fact represents a £2bn increase in each of those years on what was set out in the October 2021 spending review, when the levy was still planned.

This will restore core schools budget funding to 2010 levels by 2024/25 in real, per-pupil terms. However, it will probably not provide headroom for pay awards great enough to protect teacher and support staff salaries from high inflation over the spending review period. Several teaching unions are currently balloting members on strike action.<sup>12</sup>

The funding provided is, on its own, also unlikely to make up for learning lost during the pandemic – the schools' equivalent to the 'backlog' felt in other services. The Department for Education's main 'catch-up' intervention is tutoring, which schools can access at subsidised rates. But the amount of subsidy available is dropping – from 60% in the 2022–23 academic year to just 25% in 2023–24.<sup>13</sup> How schools will respond to this is unclear. It will to some extent depend on how much cash schools have left over after pay awards and inflation swallows some of the extra money made available in the autumn statement. A tight funding picture may mean some schools reduce the amount of tutoring they make available to their pupils.

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## Local government

Local government in England has faced a decade of cuts to its grant funding, compounded by increasing demand. Costs from statutory services such as adult social care, children's social care and homelessness services have continued to rise. Other local government-provided services – food safety, health and safety, trading standards, libraries, planning, road maintenance, and waste collection and disposal – are struggling and now offer radically reduced or changed amenities compared to a decade ago.

Local authorities faced financial jeopardy before the autumn statement. A projected £2.4bn shortfall in 2021/22 rising to £4.5bn by 2024/25<sup>14</sup> led to authorities such as Kent and Hampshire warning of section 114 bankruptcy proceedings in the coming years.<sup>15</sup> Pressures were mounting from increasing demand for locally provided services and rising costs of providing those services.<sup>16</sup> Councils with adult social care responsibilities faced particular problems as higher social care costs – including upward pressure on wages, higher operating costs, rising demand, and the planned rollout of charging reforms in October 2023 – eroded the 2021 spending review settlement and left authorities struggling to properly fund the service.<sup>17</sup>

Hunt claimed in his speech that adult social care would receive an additional £2.8bn in 2023/24 and £4.7bn in 2024/25. While there is new money for the service, these numbers are somewhat misleading. First, £1.4bn in 2023/24, and £2bn in 2024/25, comes from the delay of reforms until 2025, meaning that roughly half of each year's allocation is not in fact 'new money'. Second, £0.5bn in 2023/24 and £1.1bn in 2024/25 comes from an assumed increase in council tax receipts now that the government has allowed local authorities to raise the rate more quickly. This means that only £0.9bn in 2023/24 and £1.6bn in 2024/25 is genuinely new grant funding over which the government has direct control – an important factor given the disproportionate benefit to less deprived authorities from raising council tax (more on which below).

Nonetheless, the amount laid out in the autumn statement is a substantial uplift for adult social care and will help alleviate some of the pressures faced by local government, at least for the next two years. Overall, local authority spending power – the combined income from government grants, council tax and business rates – has been assumed to rise by 13% in real terms between 2021/22 and 2024/25 instead of the 9% originally planned in the 2021 spending review. However, this will not be enough to return the service to pre-pandemic performance levels, to put the provider market on a sustainable long-term footing or to resolve the severe workforce problems facing the sector.

The impact of the autumn statement funding changes will also vary by council, depending as they do on rising council tax receipts. The Office for Budget Responsibility (OBR) projects council tax receipts will be around 6.9% higher in 2027/28 than 2021/22, in part due to plans by the chancellor to permit councils to levy more taxes without calling a referendum.<sup>\*18</sup> This would see the average Band D council tax bill rise

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\* Currently raises of more than 3% require a referendum; Hunt changed this figure to 5%.

by around £250 by 2027/28.<sup>19</sup> Yet this may prove politically difficult to deliver given the financial strain on households;<sup>20</sup> last year, for instance, less than half (45%) of councils made use of the adult social care precept tax.<sup>21</sup>

The least deprived authorities – who typically finance more of their services through taxes<sup>22</sup> – will see a greater increase in their core spending power (see Figure 4). Conversely, the most deprived authorities will see the smallest uplifts. This follows a decade in which locally controllable spending fell more in these authorities, as cuts to grant funding fell disproportionately on their budgets due to the way cuts were distributed by the coalition then Conservative governments.<sup>23</sup> The government could make the overall change to local authority spending power less regressive by allocating a larger proportion of grant funding to more deprived local authorities at the next local government finance settlement, which will likely take place in December 2022. Until then, it is impossible to assess the full distributional impact of these changes.

The uplift in funding for adult social care will also support higher spending on other local authority delivered services. As demand for adult and children’s social care increased in the last decade, local authorities dedicated greater proportions of their spending to those statutory services at the expense of spending on neighbourhood services.<sup>24</sup> It is likely that in the absence of the additional money provided in the autumn statement, local authorities would have been forced to replicate this. Though even with Hunt’s announcements, the Association of Directors of Children’s Services has warned that the additional funding “does not come close to addressing the ever-increasing funding gap in our budgets”.<sup>25</sup>

Figure 4 **Effect of a 1% increase in council tax on local authority spending power, compared to deprivation, 2019, by local authority**



Source: Institute for Government analysis of Department for Levelling Up, Housing and Communities, Core spending power: provisional local government finance settlement: supporting information, 2022/23 and Ministry of Housing, Communities and Local Government, English indices of deprivation, 2019, supported by CIPFA.

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But this support for local government services does not come without a political cost. Reforming adult social care was a 2019 manifesto commitment that aimed to protect the public from catastrophic care costs. Delaying the changes to charging – the centrepiece of these reforms – into the next parliament essentially breaks that manifesto commitment and raises the question of whether the reforms will now ever be implemented.

This is a familiar pattern for those in the sector: successive governments have been unsuccessfully attempting to reform adult social care for more than 25 years, with six command papers, four reviews or commissions, and three pieces of legislation since 1997.<sup>26</sup> The system is in desperate need of a long-term solution to its problems but the latest delay signals that it will receive further short-term sticking plasters instead.

### **Criminal justice sector**

Since the outbreak of the pandemic the criminal justice sector – policing, the criminal courts and prisons – has struggled and is in 2022 a long way off a return to pre-pandemic performance levels. Despite a sizeable headline increase in the number of police officers, shortfalls in specialist skills have meant that the number of charges brought has, in fact, continued to fall and the police have yet to catch up with high levels of fraud that increased during the pandemic.<sup>27</sup> The crown court, which was badly disrupted by social distancing requirements, has been unable to increase the number of cases disposed of back to pre-pandemic levels and, when adjusted for the complexity of cases, the backlog is now at more than 80,000 cases, leading to lengthy delays.<sup>28</sup> In prisons, insufficient staffing numbers means that some prisoners still endure lockdown-era restriction with some locked in their cells for 22 hours or more a day.<sup>29</sup>

The sector will not receive a reprieve following this year's autumn statement. In it, the chancellor stuck to the cash settlements announced in 2021, already largely eroded by inflation. As a result, the police, courts and prisons will have to address poor performance levels on real-terms funding cuts. Police and crime commissioners may choose to cushion this by raising the police precept (the part of council tax that feeds into police budgets). However, as mentioned above, council tax rises will be politically difficult in the context of the cost of living crisis so are not seen as a given.<sup>30</sup>

Figure 2 showed how the criminal justice system will struggle to deal with demand within existing budgets. Though police forces continue to have enough funding to return headline police officer numbers back to 2009/10 levels they lack specialists, especially with supervision and forensic capability, that despite a 6.4% funding increase in 2020/21 have contributed to the lowest charging rates since 2009/10.

In *Performance Tracker 2022*, published before Hunt's statement, we argued that funding and workforce levels in courts and prisons were inadequate to return performance to their 2019/20 level.<sup>31</sup> The statement has done little to brighten the picture. We still anticipate that demand for these services will substantially exceed spending for the foreseeable future and that the government will struggle to make meaningful progress on the crown court backlog or in safely housing and providing rehabilitative activities to prisoners – whose numbers are expected to rise over the next few years.

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Much of this increase depends, however, on whether the new police officers recruited through the government's uplift programme eventually leads to the higher charges and a greater volume of cases in the justice system expected but not yet seen. Though, if charge rates do not increase, the justice system will still continue to struggle under its current pressures while failing many victims of crime.

## **What impact will the autumn statement have on the longer-term performance of public services?**

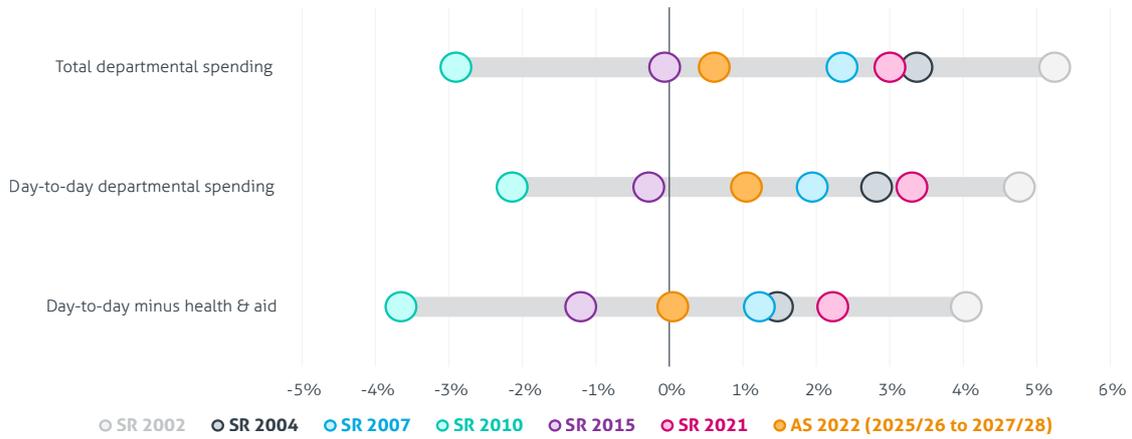
With public services struggling to recover from the pandemic, there is a good case for delaying major spending reductions in some services. Immediate cuts would almost certainly have had a further detrimental impact on the performance of public services. And, as the Institute for Government and CIPFA have [previously argued](#), "finding sustainable efficiencies will likely require time, capacity and upfront capital investment".

However, the autumn statement leaves some very difficult spending decisions for the next government, whoever that may be. Even with additional funding for some services, most are likely to still be performing worse in 2025 than on the eve of the pandemic – which, as our annual *Performance Tracker* project has shown, was already much worse than in 2010.

Given that, it is unclear whether it will be politically sustainable for the next government to hold down public spending in line with Hunt's plans. This would mean limiting average annual day-to-day spending growth to 1% across all public services, as noted likely to be insufficient, and reductions of 0.7% in unprotected ones like police, criminal courts and prisons.

If Hunt's 2025/26 plans were announced at a spending review in 2025, they would be less generous than every spending review announcement since 2002 – with the telling exceptions of 2010 and 2015, delivered as part of George Osborne's austerity programme. Osborne's 2015 plans proved undeliverable, with the government later finding it necessary to provide emergency funding to social care, the NHS and criminal justice in response to poor performance. Given that public services are now performing much worse than in 2015, it is likely that the next government will face major political pressure to spend more than planned in this autumn statement.

Figure 5 **Average annual real terms change in spending planned at successive multi-year spending reviews, 2002–2021**



Source: Institute for Government analysis of successive HM Treasury multi-year spending review documents. Notes: Figures adjusted based on the GDP deflator forecast at the time of each spending review. 'Day-to-day minus health and aid' excludes Department of Health/Department of Health and Social Care spending and Department for International Development spending up to SR 2021 and Foreign, Commonwealth and Development Office spending in SR 2021.

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