



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Lord Bridges of Headley MBE
House of Lords
London
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16 April 2024

Dear George,

Long-run projections of public spending and public sector productivity.

Thank you for inviting me to give evidence at the Lord's Economic Affairs Committee. During the committee I offered to write to you regarding long-term projected levels of public spending and how public sector productivity could achieve more sustainable levels of public spending.

In the 2023 Fiscal Risks and Sustainability Report (FRS), the Office for Budget Responsibility (OBR) projects that public spending (primary non-interest spending + net interest costs) as a share of GDP will reach 63% of GDP by 2072-73. This is driven in large part by the impact of long-term demographic and cost pressures on public spending, which is expected to increase health, social care and pension spending.

At the Committee hearing, we discussed how productivity improvements could achieve more sustainable levels of public spending in the longer-term in a way that avoids cuts to services that are valued by the public. I discussed this in June of last year at the Centre for Policy Studies. HM Treasury has assessed what productivity improvement would be required to stabilise non-interest public spending at levels of 38.5% of GDP by 2050-51, compared to the OBR's projections of 41.9%. These calculations, which are based on the OBR's 2022 FRS, show that if government were to increase annual productivity growth in the public sector by 0.5%— in areas excluding cash transfers (such as welfare and pensions) — that would stabilise non-interest public spending in 2050-51 as a proportion of GDP at 38.5%. These calculations assume that productivity gains reduce the total cost of providing services that are valued by the public.

The Government is committed to improving public sector productivity, which is why I launched a Public Sector Productivity Programme in June last year, to be led by the Chief



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Secretary. At the Spring Budget, I announced £4.2 billion of total funding to drive productivity in the public sector as part of the Productivity Plan. This included £3.4 billion for the NHS which means that the NHS can commit to 1.9% average productivity growth from 2025-26 to 2029-30, rising to 2% over the final two years. This will enable delivery of £35 billion of cumulative savings in the NHS by 2029-30. The government will present more detailed plans at the next Spending Review.

Best wishes,

RT HON JEREMY HUNT MP
Chancellor of the Exchequer