November 2017 Budget

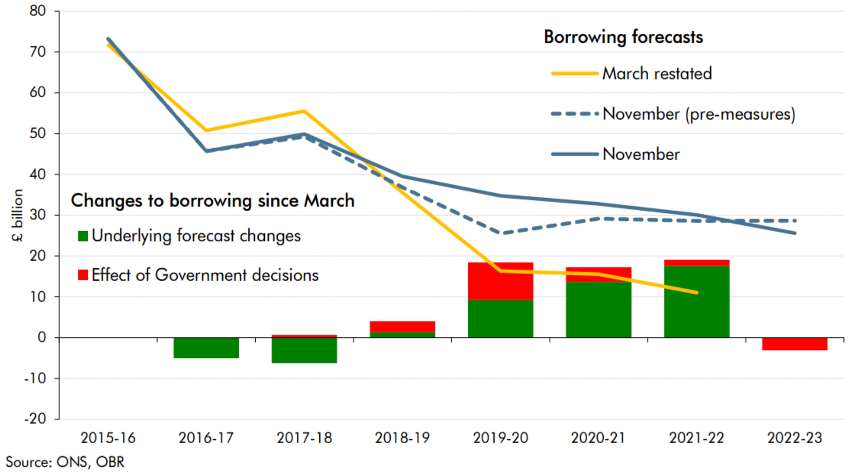
Overview

This was the first Autumn Budget, following Philip Hammond's announcement that he was changing both the timing and the frequency of the Government's "fiscal event ". The budget outlook was significantly less optimistic about economic prospects than in March. This cut to Britain's productivity growth has meant a downgrading of the growth forecast and signals that the UK economy is weaker than hoped.

The NHS in England received more funding than we had expected, but less than needed. The chancellor announced £1.6 billion extra revenue for 2018/19; £3.5 billion extra capital funded by the treasury, £0.5bn this year and an additional £3bn over the next five years; and the government has committed to fund with new money an increase to agenda for change staff, subject to the recommendation from the pay review bodies. In addition, the government has committed extra capital and extra revenue for this year.

This briefing outlines the economic headlines within the Budget, key announcements for health and the wider economy, and NHS Providers' response.

Economic Overview



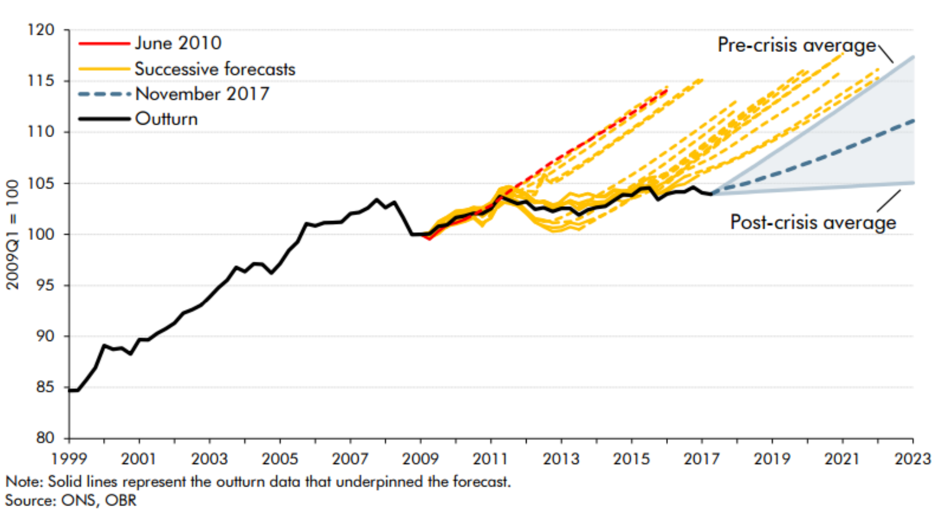
THE OBR BORROWING FORECAST

- Public sector net borrowing has been revised down for 2016/17 by £8.4bn, relative to the estimate published in March. The downward revision is being driven by higher than expected PAYE income tax and NICs receipts (up by £1.9bn this year), underspending by Government departments (down by £3.2bn), an increase in other receipts, such as VAT and exercise duty (revised up by £1.3bn), and a downward revision in various annually managed expenditure lines, such as state pensions and tax credits (down by £4.7bn).
- The deficit is expected to rise to 2.3% of GDP in 2017/18 before falling steadily over the next four years.
- Economic growth for this year (2017/18) has been revised down from 2% to 1.5%. The OBR has downgraded the forecasts for the three subsequent years. The average annual growth rate over the next five years is 1.4%.

OBR GDP forecast growth: 2017/18 to 2021/22					
	2017/18	2018/19	2019/20	2020/21	2021/22
March 2017 forecast	+1.6%	+1.7%	+1.9%	+2%	--
November 2017 forecast	+1.5%	+1.4%	+1.3%	+1.5%	+1.6%

Productivity

- The OBR has revised down its forecast growth over the coming years, based on current productivity levels.
- Productivity growth has been revised down by 0.7% a year.
- Employment increased by around 230,000 between the end of 2016 and the third quarter of 2017, however average hours worked per person remained flat, rather than falling.

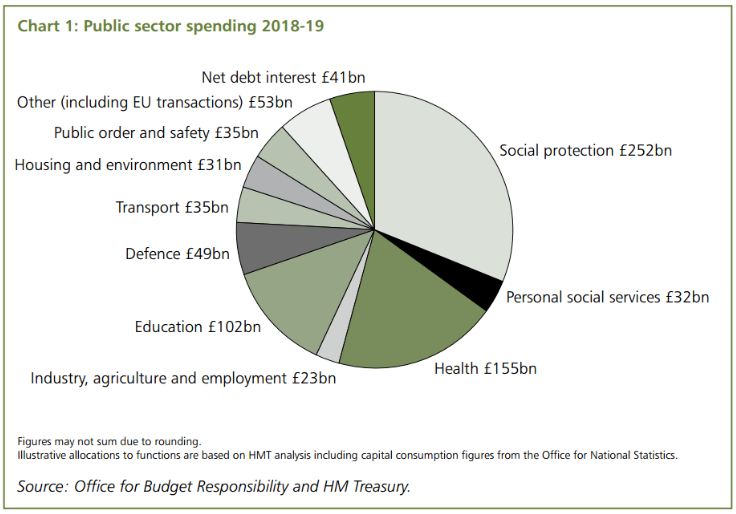


OBR PRODUCTIVITY GROWTH (OUTPUT PER HOUR) – FORECASTS AND OUTURNS

Department of Health spending profile

Overview of Department of Health spending: revenue and capital

- The Government has increased the Department of Health's budget by £2.8bn. This funding has been made on an 'exceptional' basis, which means it is not clear whether this will be recurrently carried forward in to 2020/21.
- The allocation has been made directly to the Department of Health's budget, rather than NHS England's budget as we have seen in previous years which means that this is genuinely new funding, rather than taking additional funds from other non-frontline services, such as education and training budgets.



- It is estimated that with the increase next year, the Department of Health's budget will grow from 0.5% to 1.4%.
- 2019/20 still looks incredibly challenging for the sector, as £665m of the additional £900m will need to be used to fund additional NHS pension cost increases.

Increases to the Department of Health's budget				
Year	2017/18	2018/19	2019/20	Total increase between 17/18-19/20
Revenue	+£335m	+1.6bn	+900m	£2.8bn

Department of Health budget: RDEL and CDEL			
DH RDEL (£bn)	119.1	121.9	124.2
DH CDEL (£bn)	5.6	6.4	6.7
Total (£bn)	£124.7bn	£128.3bn	£130.9bn

- The Treasury will fund £3.5 billion of capital investment between 2017/18 and2022-23, including:
  - £2.6 billion for STPs to deliver transformation schemes that improve their ability to meet demand for local services and improvements in facilities .The government has today provisionally allocated up to 10% of this £2.6bn funding to 12 of the schemes it judges the highest quality, on the basis of their potential to meet future demand and develop local clinical and financial accountability. The rest of the funds will be allocated 'in due course'. You can read which schemes have been provisionally allocated funding here
  - £700 million to support turnaround plans in the trusts facing the biggest challenges, and to tackle the most urgent and critical maintenance issues
  - £200 million to support efficiency programmes
- Other sources of capital funding will come from:
  - £3.3bn from land sales
  - £2.8bn is expected to come from private finance investment.

Funding for pay award

- Additional funding in addition to today's settlement will be provided for NHS staff on the Agenda for Change contract subject to the Pay Review Body recommendation. This will be linked to productivity improvements the Government wishes to see through the contract.
- Any pay award for doctors will not be funded by the government, but will need to be funded from existing NHS budgets.

Mental Health

- The government announced that a green paper will be published in December, which will set out plans for mental health services for children and young people.

Overview of other key / relevant announcements in the budget

Brexit

- £3 billion will be set aside over the next two years to ensure that the UK is prepared for every possible outcome in the Brexit negotiations. This is in addition to the £700 million already invested in Brexit preparations.

National Living Wage (NLW) and National Minimum Wage (NMW)

- Following the recommendations of the independent Low Pay Commission (LPC), the government will increase the National Living Wage (NLW) by 4.4% from £7.50 to £7.83 from April 2018.
- The government will also accept all of the LPC's recommendations for the other NMW rates to apply from April 2018. The recommendations include:
  - increasing the rate for 21 to 24 year olds by 4.7% from £7.05 to £7.38 per hour
  - increasing the rate for 18 to 20 year olds by 5.4% from £5.60 to £5.90 per hour
  - increasing the rate for 16 to 17 year olds by 3.7% from £4.05 to £4.20 per hour
  - increasing the rate for apprentices by 5.7% from £3.50 to £3.70 per hour

Business rates

- The government announced that it would be providing a further £2.3 billion of support to businesses to reduce the burden of business rates.

Pensions and savings

- The lifetime allowance for pension savings will increase in line with CPI, rising to £1,030,000 for 2018/19.
- Employees on maternity and parental leave will be able to take up to a 12 month pause from saving into their Save As You Earn employee share scheme, up from the current six months.
- The tax relief for employer premiums paid into life assurance products or certain overseas pension schemes will be modernised to cover policies when an employee nominates an individual or registered charity as their beneficiary.
- The basic State Pension will be increased by the triple lock. This represents a rise of 3% in April 2018, a cash increase of £3.65 per week for the full basic State Pension.
- There will be an increase to the Standard Minimum Guarantee in Pension Credit to match the cash rise in the basic State Pension.
- The full new State Pension will also be increased by the triple lock, rising by £4.80 per week.

Welfare

- The Budget confirms that the OBR forecasts welfare spending to remain within the Government's welfare cap and margin, and so the fiscal rule is judged to have been met with £2.5 billion of headroom.
- The government is now required to reset the welfare cap for the new parliament which will apply to welfare spending in 202223.
- In the interim years, progress towards the cap will be managed internally, based on the OBR's monitoring of forecasts of welfare spending and performance against the cap will be formally assessed by the OBR in 202223.
- The government will invest in better use of data to ensure benefit fraud and error related payments are reduced.
- The government will provide funding for the Department for Work and Pension's relationship support work, to help keep families together and reduce parental conflict.
- The government has announced new measures and a £1.5bn package to address concerns about the delivery of Universal Credit

Taxation

Income tax, national insurance and employee benefits

- In 2018-19 the personal allowance and higher rate threshold will increase to £11,850 and £46,350 respectively. The government will now allow marriage allowance claims on personal allowances where a partner has died before the claim was made, with claims backdated up to 4 years.
- The government will consult on how to tackle non-compliance with off-payroll working rules (IR35) in the private sector, drawing on the experience of the public sector reforms, including through external research already commissioned by the government and due to be published in 2018.
- The government will publish a consultation in 2018 on how to make the taxation of trusts simpler, fairer, and more transparent.
- Following the call for evidence published in March 2017, the government will make changes to the taxation of employee expenses including self-funded training (the government will consult on extending the scope of tax relief), subsistence benchmark scale rates (the burden will be reduced) and guidance and claims process for employee expenses (this will be improved through work with external stakeholders).
- The scope of Qualifying Care Relief (QCR) will be extended to cover self-funded Shared Lives care payments, to encourage the use of Shared Lives care.

Business and corporate tax

- The corporate indexation allowance will be frozen from 1 January 2018. Accordingly, no relief will be available for inflation accruing after this date in calculating chargeable gains made by companies.
- The government will consult in 2018 on the tax treatment of intellectual property (the Intangible Fixed Asset regime). This will consider whether there is an economic case for targeted changes to this regime, so that it better supports UK companies investing in intellectual property.

- A number of measures relating to non-resident companies and activity in other jurisdictions were also announced.

Property tax

- The planned switch in indexation from RPI to the main measure of inflation (currently CPI) will be brought forward to 1 April 2018
- The government will legislate retrospectively to address the so-called "staircase tax". Affected businesses will be able to ask the Valuation Office Agency (VOA) to recalculate valuations so that bills are based on previous practice backdated to April 2010 (including those who lost Small Business Rate Relief as a result of the Court judgement). The government will publish draft legislation shortly.
- The government will increase the frequency with which the VOA re-values non-domestic properties by moving to revaluations every three years following the next revaluation, currently due in 2022. The government will consult on the implementation of these changes in the spring.
- Local government will be fully compensated for the loss of income as a result of these property tax measures.

New technologies, innovation and infrastructure

Technology

- The government will create a new Centre for Data Ethics and Innovation, invest over £75 million to take forward key recommendations of the independent review on AI, create new AI fellowships, and establish a new £10 million Regulators' Pioneer Fund.
- The government will invest £21 million over the next 4 years to expand Tech City UK's reach – to become 'Tech Nation' – and support regional tech companies and start-ups to fulfil their potential. Tech Nation will roll out a dedicated sector programme for leading UK tech specialisms, including AI and FinTech.

Electric vehicles

- To support the transition to zero emission vehicles, the government will regulate to support the wider roll-out of charging infrastructure; invest £200 million, to be matched by private investment, into a new £400 million Charging Investment Infrastructure Fund; and commit to electrify 25% of cars in central government department fleets by 2022. The government will also provide £100 million to guarantee continuation of the Plug-In Car Grant to 2020 to help consumers with the cost of purchasing a new battery electric vehicle.

Research and development

- The National Productivity Investment Fund (NPIF) will grow by a further £2.3 billion of additional spending in 2021-22, taking total direct R&D spending to £12.5 billion per annum by 2021-22. The Industrial Strategy White Paper will provide further detail on what this funding will support, including new support to grow the next generation of research talent and ensure that the UK is able to attract and retain the best academic leaders globally.

- The government will increase the rate of the R&D expenditure credit from 11% to 12% with effect from 1 January 2018. To provide businesses with the confidence to make R&D investment decisions, the government will also introduce a new Advanced Clearance Service for R&D expenditure credit claims.
- The government will: change immigration rules to enable world-leading scientists and researchers endorsed under the Tier 1 (Exceptional Talent) route to apply for settlement after three years; make it quicker for highly-skilled students to apply to work in the UK after finishing their degrees; and reduce red tape in hiring international researchers and members of established research teams by relaxing the labour market test and allowing the UK's research councils and other select organisations to sponsor researchers. This is alongside the expansion of the exceptional talent route, benefiting current and future leaders in the digital technology, science, arts and creative sectors.

Housing

House building

- The government will support more housebuilding, raising housing supply to make homes more affordable in the long term and help those who aspire to homeownership.
- The government has outlined additional measures to boost the supply of skills, resources and building land, and to create financial incentives to deliver 300,000 net additional homes a year on average by the mid-2020s:
  - Make available £15.3 billion of new financial support for housing over the next five years, bringing total support for housing to at least £44 billion over this period.
  - Introduce planning reforms to ensure more land is available for housing, and that better use is made of underused land in our cities and towns.
  - Provide £204 million of funding for innovation and skills in the construction sector, including to train a workforce to build new homes.

Grenfell Tower fire

- £28m will be provided to Kensington and Chelsea Council for mental health services, regeneration support for the surrounding areas and for new community space for Grenfell United community group.
- The government will not let financial constraints get in the way of essential safety work. Any local authority that cannot access funding to pay for essential fire safety work should contact the government.

Implications for the NHS and providers

Following today's budget, our view is that while any additional funding is welcome, there remains an unfunded gap between the costs currently faced by providers and increasing demand for care which needs to be addressed.

- The announcement of an additional £1.6bn revenue funding in 2018/19 and an additional £900m in 2019/20 is welcome, given the intense financial and operational pressure trusts are facing. We will be seeking early clarity from NHS England and NHS Improvement about how this additional funding will flow to providers, including whether there will be a national planning exercise for next year given today's announcement.
- In the current financial year, an additional £335m for trusts to help meet the challenge of the approaching winter period is welcome, and yet, comes too late to have maximum impact. We are concerned that unrealistic expectations might be set nationally about how this additional funding might be used to improve performance over winter. Members will be understandably keen to understand how and when, exactly, additional revenue this financial year and beyond will reach them – we will update members on this as soon as possible.
- We welcome the announcement that additional funding for Agenda for Change staff will be provided, conditional on ongoing talks over contract reform. The pay uplift will be determined as always by the NHS Pay Review Bodies. NHS Providers will actively contribute to this process. At this stage, we understand that the pay award for doctors will not be funded by the government; instead this will need to come from existing NHS budgets.
- On capital funding, Sir Robert Naylor's review of NHS property and estates calculated that £10bn was required to fund and maintain an NHS estate that could continue to deliver safe, high-quality care for patients. While the Government today announced an additional £10bn 'package of capital investment', only £3.5bn additional funding from the Treasury has been announced. This falls short of what we know the NHS needs for backlog maintenance and transformation. Around £3.3bn is expected to come from land sales, but the Naylor Review itself, for example, calculated that 57% of the total gross risk adjusted potential financial opportunity for the sector was accounted for by the London Sustainability and Transformation Partnerships alone. In practice, trusts across the country may continue to find it difficult to access the capital they need to enable productivity improvements they are committed to delivering. This is particularly disappointing given capital investment in the NHS has fallen sharply in recent years.

Press statement

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

Less than needed: more than expected – NHS Providers response to the Budget

Responding to the Budget, the chief executive of NHS Providers, Chris Hopson, said:

"NHS providers needed three things from the Budget: extra revenue for day to day spending in 2018/19; more capital funding for transformation and tackling the maintenance backlog; and fully funding the ending of the 1 per cent pay cap.

"The NHS has been given £1.6 billion extra revenue for 2018/19; £3.5 billion extra capital funded by the treasury; and the government has committed to fund the main NHS pay rise. In addition, the government has committed extra capital and extra revenue for this year, though this has come very late to be used with maximum impact for this winter.

“Any extra investment in the NHS is welcome given the overall economic context and the other demands on public expenditure. It is a clear signal that the government has listened to the NHS’ definitive statement that the existing spending review plans for 2018/19 were undeliverable.

“However it is disappointing that the government has not been able to give the NHS all that it needed to deal with rising demand, fully recover performance targets, consistently maintain high quality patient care and meet the NHS’s capital requirements. We also note that the extra revenue has been tied to acute hospital performance at a point when the pressures across the rest of the health service – community, mental health and ambulance services – are just as great.

“Tough choices are now needed and trade offs will have to be made. It is difficult to see how the NHS can deliver everything in 2018/19, for example fully recovering performance targets. The next step is a conversation with frontline leaders to clearly agree what can and can not be done.

“We are also still trying to live hand to mouth without a sustainable long term financial and capital settlement for the health and care sector. This makes it impossible to plan effectively. The existing gap between demand and funding is still scheduled to grow significantly by the end of the parliament and we must address this underlying problem.

“Overall this new funding is less than the NHS needed but more than was expected. But, as always, NHS trusts will do their absolute best to provide the highest quality care for patients within the funding settlement that’s been allocated.”

Useful links

The full Budget document can be accessed here
The full text of the Chancellor’s speech is accessible here
OBR figures are available here