7 March 2017

on the day BRIEFING

NHS Providers

MARCH 2017 BUDGET

OVERVIEW

Philip Hammond's first Budget as Chancellor balanced a positive economic message – that the UK was the second-fastest growing economy in the G7 in 2016 – with caution given a significant national debt and ahead of the unknown impact of Brexit and its preceding negotiations. The Budget was designed to show the Government creating a strong and stable footing in that context, with a cost neutral approach wherein any giveaways will be matched by spending cuts or tax increases elsewhere.

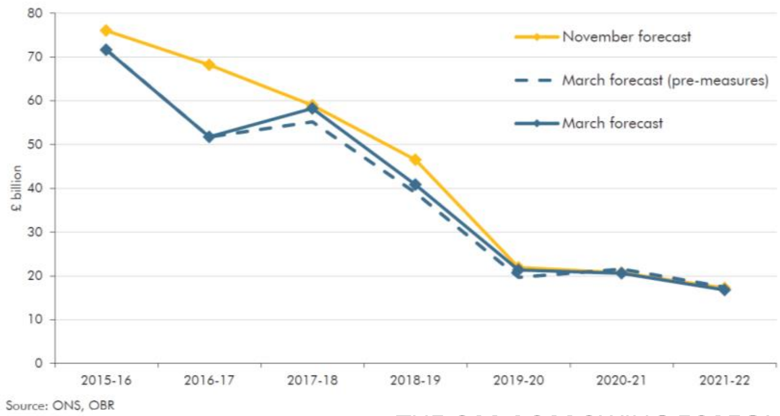
The most significant spending announcement was on social care, with a grant of £2bn over the next three years, of which £1bn will be available in 2017/18. This is intended to ensure councils can take immediate action to fund care packages for more people, support social care providers, and relieve pressure on the NHS locally, in particular by addressing delayed transfers of care. The Government will also publish a green paper on long term social care funding options later in the year.

In addressing the challenges faced by the NHS, the Chancellor focused on capital investment, making an additional £100m available in 2017/18 to invest in A&E departments, and £325mover the next three years to support STPs.

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

ECONOMIC OVERVIEW

Revised OBR economic forecasts from autumn statement (Nov 2016):



THE OBR BORROWING FORECAST

- Public sector net borrowing is likely to be significantly lower for 2016/17. This means the deficit for the year has been revised downward by £16.4bn, from £68.2bn to £51.7bn.
- Unexpectedly strong growth in receipts since the last forecast is the biggest contributor to the lower borrowing figure, including an upward revision of £1.4bn in capital gains tax, £1.8bn in National insurance contributions (NIC) and PAYE, as well as an additional £4.3bn in corporation tax.
- The forecast reduction in borrowing this year means there is likely to be an increase in public borrowing next year (2017/18). In November last year it was forecast to shrink by £7.2bn, but it is now expected to increase by £6.5bn to £58.3bn.

- The deficit (in both headline and structural terms) is now expected to fall from 2.6 % of GDP this year to around 1% in 2019-20.
- Cumulative real GDP growth from the beginning of 2015 to mid-2016 has been revised downwards from 2.6% to 2.2%.
- Economic growth for next year (2017/18) has been revised upwards, from 1.4% to 2%. The OBR also forecast that the economy will grow at a slightly slower rate in 2018, before picking up to 2% in 2021.

OBR GDP forecast growth: 2016/17 to 2019/20				
2016/17	2017/18	2018/19	2019/20	2020/21
+2%	+1.6%	+1.7%	+1.9%	+2%

Longer term impact of rising health and social care pressures

- Over the next Parliament and beyond, the public finances will continue to be influenced by demographic trends, such as the retirement of the large baby-boomer cohort and increasing life-expectancy. The OBR's recent 'Fiscal sustainability report' projects that these demographic trends will drive increased spending in age-related areas such as health, long-term care and the state pension .If policy remains unchanged the OBR projects that factors such as the rising prevalence of chronic health conditions and technological advancements will place further upward pressure on health spending.
- More specifically, the OBR states if tax receipts and annually managed expenditure stay in line with the current forecast approach, but departmental spending was allowed to rise in line with the pressures of an ageing population and other non-demographic pressures on health spending, then the deficit will remain roughly flat at around 0.8 per cent of GDP by the end of the next Parliament.
- Longer term, spending on the State Pension is forecast to rise from 5.0% of GDP in 2021/22 to 7.1% of GDP by 2066/67. However, the same demographic and economic trends will leave revenues broadly stable. The OBR notes "without changes to policy, these pressures would therefore put public sector debt on an unsustainable upward trajectory, almost tripling as a share of GDP over the next 50 years."

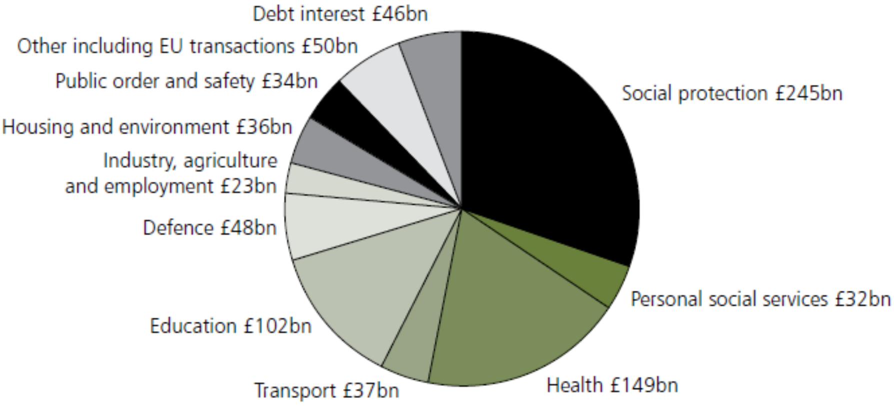
Brexit

- The OBR has not significantly changed its forecast regarding the impact of Brexit "given the uncertainty regarding how the Government will respond to the choices and trade-offs" and "the considerable uncertainty about the economic and fiscal implications of different outcomes [of Brexit choices], even if they were predictable." Therefore they have retained the same assumptions that underpinned their November forecast, and have articulated a range of possible outcomes, based on the following principles:
  - The UK leaves the EU in April 2019 – two years after the date by which the Prime Minister has stated that Article 50 will be invoked;
  - Negotiation of new trading arrangements with the EU and others slows the pace of import and export growth for the next 10 years.
  - The UK adopts a tighter migration regime than that currently in place, but not sufficiently tight to reduce net inward migration to the desired 'tens of thousands'.

DEPARTMENTAL SPENDING PROFILES

- Departmental spending across government has been revised down by £2.3 bn - total managed expenditure is expected to be around £802bn for 2017/18. This reflects "the latest information departments have provided to the Treasury".
- The OBR notes "in 2015-16 departments' total underspend for the revenue departmental expenditure limit (RDEL) was £0.9bn, and the Department of Health overspent its limit. For this year, our central expectation is that there will be only small further underspends on each of RDEL and capital departmental expenditure limit (CDEL) against final plans."

Chart 1: Public sector spending 2017-18



- The department of health planned RDEL and CDEL have seemingly flexed from the headline numbers outlined the comprehensive spending review of 2015 and last year's budget, with a reduction in revenue and increase in planned capital spend. Its planned revenue profile as outlined in the 2017 budget for the rest of this parliament is as follows:

	2016/17	2017/18	2018/19	2019/20
DH RDEL (£bn)	116.1	117.6	120.3	123.2
DH CDEL (£bn)	6.1	6.0	6.0	5.9
Total (£bn)	122.2	123.6	126.3	129.1

HEALTH SPECIFIC ANNOUNCEMENTS

Capital funding for A&E and STPs

- Accident & Emergency (A&E) capital investment. The government will provide an additional £100 million to the NHS in England in 2017/18 for capital investment in A&E departments. It is intended that this will enable Trusts to invest in measures to help manage demand on A&E services. For example, the funding will help increase the provision of on-site GP facilities for more effective triage
- Sustainability and Transformation Plans (STPs). The government will invest £325m in capital over the next three years in STPs to support their local capital investment proposals. This will be allocated to the STPS that "have demonstrated the most progress to date".
  - In the autumn, a further round of STP proposals will be considered, and further capital funding will be allocated to these STPs subject to "the same value for money tests". The budget notes investment "decisions

will also consider whether the local NHS area is playing its part in raising proceeds from unused land, to reinvest in the health service."

- It is not yet clear how this funding relates to the 2017/18 sustainability and transformation funding pot or the changes in the DH's capital budget.

Personal injury discount rate

- The chancellor noted in his speech the proposed changes to the personal injury discount rate and the impact this is forecast to have on the NHS, which some have estimated at £1bn per annum. He stated he has "set aside £5.9bn across the forecast period" to protect the NHS on this issue. How this funding will be channelled to mitigate the concern has yet to be confirmed

SOCIAL CARE ANNOUNCEMENTS

- Today's budget has committed £2bn of additional funding to councils in England over the next 3 years to spend on adult social care services to help ensure people receive the social care support they need and relieve pressures on the NHS.
- £1bn of this funding will be made available in the next financial year (2017-18).
- The budget document indicates that "local councils will need to work with their NHS colleagues to consider how the funding can be best spent", but it is not yet been confirmed how this will be achieved in practice.
- The government has also undertaken to set out longer-term options for securing the financial sustainability of the social care system in a green paper, expected later in the year.
- In his speech, the Chancellor has made clear that the options under consideration do not include using inheritance tax as a means for funding social care costs.
- The extra funding will be accompanied by further measures to support local authorities which are facing the most significant challenges in relation to delayed transfers of care. These will be announced by the Departments of Health and Communities and Local Government in due course.
- In his speech, the Chancellor highlighted that 24 local authorities account for over half of all delayed discharges to social care.

Other health related announcements

- From 13 March 2017, the duty rates on beer, cider, wine and spirits will increase by RPI inflation, in line with previous forecasts. The government will also consult on
  - Introducing a new duty band for still cider just below 7.5% abv to target white ciders
  - The impacts of introducing a new duty band
- Duty rates on all tobacco products will increase by 2% above RPI inflation. This change will come into effect from 6pm on 8 March 2017.
- Minimum Excise Tax: the government will introduce a Minimum Excise Tax for cigarettes. This will target the cheapest tobacco and promote fiscal sustainability. The rate will be set at £268.63 per 1,000 cigarettes. It will take effect from 20 May 2017.

ANNOUNCEMENTS WITH WIDER IMPLICATIONS FOR NHS PROVIDERS

Fuel duty

- The budget today has confirmed that fuel duty will remain frozen until April 2018.

Business rates

- The government has announced £435m to support business affected by the business rates relief revaluation.
- The Chancellor also pledged that no small business losing the small business rates relief will pay more than £600 more in business rates this year than they did in 2016-17.
- Local authorities will be provided with £300m of discretionary relief funding to provide help to businesses most affected by the revaluation. Further details on the formula to be used to allocate this funding will be announced shortly.
- A £1,000 discount will be made available for all pubs with a rentable value with less than £100,000 in 2017, which is expected to benefit approximately 90 percent of pubs. Further increases will also be capped.
- Taken together, all the measures equal a further £435m cut in business rates.
- The relief package announced today is not expected to mitigate the impact of the rise of business rates for trusts, which previous analysis has estimated to be increasing from £328 million this year to £418 million by 2021.
- The government aims to revaluate properties at least every 3 years and will set out its preferred approach for delivering this aim at Autumn Budget 2017 and will consult ahead of the next revaluation in 2022

Devolution

- The Chancellor announced that the Government has agreed a Memorandum of Understanding further devolving powers to the Greater London Authority (GLA) and London Councils.
- The new deal will see further powers devolved in the areas of infrastructure, business rates, criminal justice, congestion, skills and employment support. A further memorandum of understanding to devolve healthcare powers in London is expected to be agreed, with more details to follow shortly.
- The government has also made progress for further city deals for Edinburgh, Swansea, North Wales and Tay Cities and has opened negotiations for a city deal in Stirling.

OVERVIEW OF OTHER KEY ANNOUNCEMENTS IN THE BUDGET

Public sector efficiencies

- As confirmed in the March 2016 Budget, the Government is conducting an Efficiency Review to achieve £3.5bn of resource savings across Whitehall departments (excluding the Department of Health and Department for Education) in 2019-20. Of these savings, the Government intends to allocate £1bn for reinvestment in priority areas.
- The Chief Secretary to the Treasury is leading the review and has tasked affected spending departments to consider options for reducing departmental spend in the penultimate year of the current Parliament.
- A secondary objective of the review is to 'embed a culture of efficiency across government', with the expectation that incremental improvements to the delivery of public services will be made year-on-year. To support this goal, Sir Michael Barber will conduct a review to explore how efficiency is incentivised and measured across government.

- The government will report on progress on the Efficiency Review in autumn 2017.

Pensions and savings

- The government is carrying out the first statutory review of State Pension age and will consider all the evidence – including an independent report by John Cridland – before publishing its review, expected no later than 7 May 2017.
- The Budget confirms the NS&I Investment Bond final rate, announced at Autumn Statement 2016, of 2.2% over a term of 3 years to be available for 12 months from April 2017. The Bond will be open to everyone aged 16 and over, subject to a minimum investment limit of £100 and a maximum investment limit of £3,000.
- It is also confirmed that the government will amend the tax registration process for master trust pension schemes to align with the Pensions Regulator's new authorisation and supervision regime.
- In relation to the qualifying recognised overseas pension schemes (QROPS), the government will introduce a 25% charge on transfers to QROPS, targeted at those seeking to reduce the tax payable by moving their pension wealth to another jurisdiction. Exceptions will apply to the charge allowing transfers to be made tax-free where people have a genuine need to transfer their pension, including when the individual and the pension are both located within the European Economic Area.

Welfare

- The Budget confirms that the OBR forecasts welfare spending to remain within the Government's welfare cap and margin set at Autumn Statement 2016.
- The government has no plans to introduce further welfare savings in this Parliament beyond those already announced.

Education, skills and training

Schools

- In relation to schools, the government confirms its intention to progress its aim to enable every child to have access to a good school place by:
  - Extending the free schools programme with investment of £320 million in this parliament to help fund up to 140 schools, to be located where they are most needed to improve school choices, and will include independent-led, faith, selective, university-led and specialist maths schools.
  - Committing £216 million of investment in school maintenance,
  - Expanding the current 'extended rights' entitlement for children aged 11 to 16, who receive free school meals or whose parents claim Maximum Working Tax Credit, to allow them access to free transport to attend the nearest selective school in their area.

Further and higher education

- Creating a highly-skilled workforce is a key focus in the Budget, with the government positioning this as the next step in its strategy to improve productivity and crucial to the UK's future outside of the EU. A raft of specific announcements are made including:
  - T-levels for 16-19 technical education, which will create sector-specific routes to employment for 16-19 year olds, supported by an increase in the number of hours of learning by more than 50%, and including a high quality industry work placement for each student. T-levels be introduced from 2019-20 with over £500 million of additional funding invested per year once routes are fully implemented.

- Funding maintenance loans, such as those available to university students, for students pursuing technical education at higher levels, opening up the same opportunities available to those studying on the academic route and develop the higher-level skills employers demand.
- To enable individuals to retrain and upskill at all points in their life the government will set up lifelong learning pilots, spending up to £40 million by 2018-19 to test different approaches.
- The government will support an increase in the number of returns to work through £5 million of new funding.
- The terms of doctoral loans for 2018-19 announced at Budget 2016 are confirmed as up to £25,000 for doctoral study.

Taxation

Personal tax

- Personal allowance to rise by £500 to £11,500, alongside a £2,000 increase to the higher rate threshold.
- The main rate of Class 4 NICs will increase from 9% to 10% in April 2018, and to 11% in April 2019.
- The tax-free dividend allowance will be reduced from £5,000 to £2,000 from April 2018, alongside the ISA allowance rising to £20,000 from this April.
- The government will consult on taxation of benefits in kind, income tax relief for employee expenses, and accommodation benefits (the latter with proposals to bring the tax treatment of employer-provided accommodation and board and lodgings up to date).

Business and corporate tax

- The rate of corporation tax will decrease to 19% from April this year and then again to 17% in 2020.
- The government will make administrative changes to the Research and Development Expenditure Credit to increase the certainty and simplicity around claims and will take action to improve awareness of R&D tax credits among SMEs. The government will continue to keep the competitiveness of the UK environment for R&D under review to ensure that the UK is "profoundly pro-innovation".
- The patient capital review aims to ensure that high growth businesses can access the long-term capital that they need to fund productivity enhancing investment. Alongside identifying barriers to institutional investment in long-term finance, the review will also consider existing tax reliefs aimed at encouraging investment and entrepreneurship to make sure that they are effective, well targeted, and provide value for money.

Property tax

- The reduction in the Stamp Duty Land Tax filing and payment window delayed until 2018-19.

Other tax measures

- By 2020, the government will increase recycling targets for paper to 75.0%, aluminium to 64.0%, steel to 85.0% and for wood packaging to 48.0%. Targets for overall packaging recycling will increase to 75.4% and for recovery to 82.0% by 2020.

Cities and regions

- The government will shortly be announcing the Midlands Engine Strategy, and is continuing to build the Northern Powerhouse.

- The government has agreed a Memorandum of Understanding with the Greater London Authority (GLA) and London Councils on further devolution to London covering criminal justice services, congestion, funding infrastructure, and business rates.

Infrastructure

- The National Productivity Investment Fund (NPIF) will provide over £23 billion of investment between 2017-18 and 2021-22, with a focus on priority areas that are critical for improving productivity: economic infrastructure, housing and R&D. The NPIF will invest £740 million in digital infrastructure by 2020-21 to support the next generation of fast and reliable mobile and broadband communications, including a new 5G Strategy.
- The Digital Infrastructure Investment Fund will be launched in spring 2017 with Government investment of £400 million at least matched by private sector investors to accelerate the deployment of full-fibre networks.
- The Industrial Strategy Challenge Fund (ISCF) will support collaborations between business and the UK's science base with an initial investment of £270 million in 2017-18. The first wave will include development of batteries to power the next generation of electric vehicles; artificial intelligence and robotics systems that will operate in extreme and hazardous environments; and accelerating patient access to new drugs and treatments through developing brand new medicine manufacturing technologies.
- The NPIF will invest £90m to provide an additional 1,000 PhD places in areas aligned with the Industrial Strategy of which around 85% will be in STEM disciplines, with a further £160m to support new fellowships for early and mid-career researchers in areas aligned to the Industrial Strategy.
- The government will invest over £100 million over the next 4 years to attract global talent to the UK, to help maintain the UK's position as a world leader in science and research.

Transport

- The budget included details on support for transport allocated through the National Productivity Investment Fund (NPIF):
- £690 million more will be competitively allocated to local authorities, with £490 million made available by early autumn 2017.
- Regional allocations of £220 million NPIF funding will be invested to tackle key pinch-points on strategic roads, with details of individual schemes to be announced by Department of Transport shortly.

Indirect taxes

- From 13 March 2017, the duty rates on beer, cider, wine and spirits will increase by RPI inflation, in line with previous forecasts. The government will also consult on a new duty band to target white ciders, and for still wine and made-wine between 5.5% and 8.5% abv.
- Duty rates on all tobacco products will increase by 2% above RPI inflation from 6pm on 8 March 2017.
- A Minimum Excise Tax for cigarette will be set at £268.63 per 1,000 cigarettes from 20 May 2017.
- From 1 April 2017 the VAT registration threshold will increase from £83,000 to £85,000 and the deregistration threshold from £81,000 to £83,000.
- The levy rate for added sugar drinks with a total sugar content of 5 grams or more per 100 millilitres will be set at 18 pence per litre, and those with 8 grams or more per 100 millilitres will be set at 24 pence per litre.
- The government will legislate to introduce anti-forestalling provisions and increase the standard rate of Insurance Premium Tax (IPT) to 12% from 1 June 2017.

OUR RESPONSE

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

Budget offers short term help but no long term solutions for the NHS and social care

Commenting in response to the chancellor's budget, NHS Providers director of policy and strategy, Saffron Cordery said:

"We welcome the announcement of additional funding for social care in the chancellor's budget. Along with many others, we have argued that social care should have first call on any extra money going into health and care services. Good social care can help prevent admissions to hospital and reduce delays in discharging patients once they are medically fit and ready to leave. We are pleased the government has acted on the concerns that we have raised. However, the extra £1 billion announced for next year will only go some of the way to meeting a shortfall which was widely expected to reach £2 billion in 2017/18. Similarly the £2 billion of extra funding for social care covering the next three years – however welcome – also falls well short of what will be needed.

"We need to find a long-term sustainable solution to how we fund and support social care services. This not a new problem but it is an urgent one. We therefore welcome the chancellor's announcement of a green paper and will contribute to it. It's important that we don't start again from scratch – the recent reviews by Andrew Dilnot and Kate Barker for The King's Fund provide comprehensive analysis of the problem and some potential solutions.

"We are also pleased that the chancellor has recognised the importance of capital spending – on buildings and technology – to help the NHS adapt to changing needs. We welcome the multi-year capital programme for 'approved high quality' sustainability and transformation plans (STPs), which will be announced in the autumn budget. We need to ensure there will be enough capital funding left over for those STPs that will follow soon afterwards.

"And while it is right that we invest for the future, we also need to address day to day capital funding to deal with a worrying building maintenance backlog that has built up in recent years due to continual raids on the NHS' capital budget to support other priorities.

"The announcement of £100 million of capital spending to support GP triage in accident & emergency departments will help more trusts adopt what has become a tried and trusted approach for many NHS trusts. A key issue though is whether we have the GPs available to deploy in A & E – this is not just about providing the right facilities.

"The chancellor's initiatives are helpful and will provide much needed support in the short term. But they do not by themselves provide sustainable solutions for the NHS and care services over the medium to long term. The gap between what the NHS is being asked to deliver and the resources available will continue to grow. Funding increases for the health service will be much lower for the next four years than in the first year of this parliament. This is despite demand rising by between four and five per cent each year. We have to find a long-term answer to this funding gap."

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