30 October 2018

on the day BRIEFING

NHS Providers

November 2018 Budget

Overview

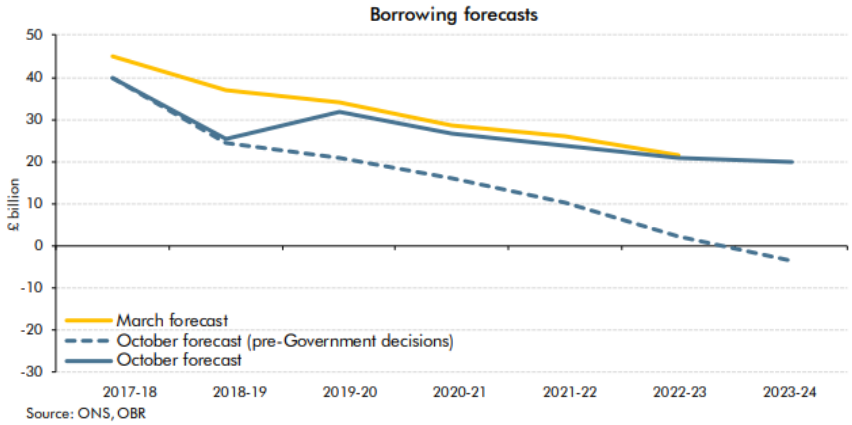
Chancellor Philip Hammond delivered his final Budget before the UK is due to leave the EU and ahead of the 2019 Comprehensive Spending Review with a positive message that "austerity is coming to an end", and a signal that he is preparing the economy and country for a "new chapter". In a marked change of tone from his previous Budgets, the Chancellor set out a raft of spending measures designed to offer a promise of a brighter tomorrow for the British people whose hard work, after eight years of austerity, "has paid off".

An unexpected £13bn windfall, resulting from better than expected tax receipts, meant that the Chancellor was able to honour the commitment to grant an additional £20.5 billion over 5 years to the NHS without raising taxes. Other big announcements included raising the personal tax free allowance, increasing the living wage and providing a £1bn boost to support the rollout of Universal Credit.

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

Economic Overview

- Public sector net borrowing has fallen faster than expected, and the OBR has revised its forecasts accordingly. The UK government is now expected to borrow £25.5bn this year, which is £11.9bn less than previously forecast. This change is the result of stronger tax revenues and lower spending on welfare and debt interest than expected.



THE OBR BORROWING FORECAST

- This year's GDP growth has been revised down from 1.5% to 1.3%, primarily because of the snowy conditions experienced during winter. However growth has been revised upward for the subsequent years, following the publication of new employment data.
- These revisions to borrowing and growth have created a 'fiscal windfall', most of which will be used to fund the NHS settlement announced by the prime minister in June. It means the Government can avoid certain tax rises to fund these commitments. In 2018/19 the deficit is set to fall to 1.3% of GDP but will

rise to 1.6% the following year. The OBR is forecasting a deficit of 0.8% in 2023/24, leaving the government only two years to reach its target of balancing the budget.

- Employment has risen by 240,000 during the first six months of the financial year, almost three times more than expected. Since March CPI inflation has declined in line with forecasts, but following recent rises in oil prices inflation is expected to grow throughout the second half of the year at 2.6%.
- The OBR has continued to apply the same broad-brush assumptions to its post-Brexit forecasts as it has used since the referendum. The current forecast assumes a 'relatively smooth exit from the EU next year'. It warns that, although difficult to predict, a 'disorderly' exit may lead to severe short-term implications for the economy, particularly on public finances.

OBR GDP forecast growth: 2018 to 2023						
	2018	2019	2020	2021	2022	2023
November 2018 forecast	1.3%	1.6%	1.4%	1.4%	1.5%	1.6%
March 2018 forecast	1.5%	1.3%	1.3%	1.4%	1.5%	

Department of Health spending profile

Overview of Department of Health spending: revenue and capital

- The Government has increased NHS England's budget by £7.2bn, in line with the Prime Minister's announcement in June. This includes an additional recurrent £1.25bn, on top of the core revenue increase, to fund an increase in NHS employer pension contributions.
- However, the Department of Health and Social Care's (DHSC) budget, which includes the NHS England budget, will rise more slowly, by £6.3bn. The means there are likely to be cuts to budgets outside the NHS ring fence, including funding for public health, training, and the budgets of national organisations such as the Care Quality Commission.
- The Red Book also gives five-year projections for both NHS England spending. As revealed in June, NHS England's budget will rise to £149bn in 2023/24.

NHS England budget						
Year	2018/19	2019/20	2020/21	2021/22	2022-23	2023-24
NHS England budget (£bn)	114.6	121.8	128.2	134.4	141.1	149.0

- The DHSC capital budget for this year is given as £5.9bn. This is £500m less than the figure given for 2018/19 in last year's s Red Book.
- Beyond this year, capital budgets are set to rise, to £6.7bn in 2019/20 and £6.8bn in 2020/21.

Department of Health budget: revenue and capital		
Year	2018-19	2019-20
DH revenue budget (£bn)	123.3	129.6
DH CDEL (£bn)	5.9	6.7
Total (£bn)	£129.2	£136.3

Health specific announcements

- The Budget gives new detail on the future efficiency requirement for the NHS. It says the NHS long term plan must set out how the NHS will achieve cash-releasing productivity growth of at least 1.1% a year, as one of the government's five financial tests for the plan.
- The five financial tests, which were first outlined in June, are restated in full. The NHS long term plan must set out how the NHS will:
  - (including providers) return to financial balance
  - achieve cash-releasing productivity growth of at least 1.1% a year (with a final number to be confirmed in the plan), with all savings reinvested in frontline care
  - reduce the growth in demand for care through better integration and prevention (with a final number to be confirmed in the plan)
  - reduce variation across the health system, improving providers' financial and operational performance
  - make better use of capital investment and its existing assets to drive transformation.
- As also set out in June 2018, the government will consider proposals from the NHS for a multi-year capital plan to support transformation, and a multi-year funding plan for clinical training places. The government will also ensure that public health services help people live longer healthier lives. Budgets in these areas will be confirmed at Spending Review 2019.
- In addition, the government has made provision for NHS pension costs until 2023-24, which will be adjusted in line with the confirmed Superannuation Contributions Adjusted for Past Experience (SCAPE) rate change.

Mental health

- The government has committed that funding for mental health services will grow as a share of the overall NHS budget over the next five years. Although £2bn additional spending on mental health was widely reported before the Chancellor's speech, the figure is not in the Red Book. The government has promised to extend mental health crisis services, at a cost of £250m per year by 2023/24. These include:
  - Giving 24/7 mental health support via NHS 111;
  - Crisis teams in every part of the country for children and young people;

- Comprehensive mental health support in every major accident and emergency department;
- More mental health specialist ambulances; and
- More community services such as crisis cafes.

- The NHS will also prioritise mental health services in schools. For adults, access to the individual placement support programme will be expanded to help people with severe mental illness find and stay in work, with the aim of helping 55,000 people by 2023/24.

Social care

- A number of short term measures have been announced on social care funding. The government has repeated its commitment to addressing longer term funding in the forthcoming social care Green Paper.
- In addition to the already announced £240m social care funding for 2018/19, another £240m is set aside for adult social care in 2019/20. The intention of these measures is to free up NHS beds over winter.
- A further £410m has been made available for adult's and children's social care in 2019/20. Again, the government has made it clear this money should improve social care provision to ease demand for NHS services.
- A final £55m will be channelled via the Disabilities Facilities Grant in 2018/19 to provide home aids and adaptions for disabled children and adults on low incomes.
- The Budget also makes £84m available for 20 local authorities to improve children's social care over the next five years. The intention is for this money to help more children stay at home with their families.

Other health related announcements

- The government is making £10 million of capital funding available to air ambulances in England.
- In his speech the Chancellor said the government would continue to back public/private partnerships, where they add value for the public and transfer risk to the private sector. However the government has found Private Finance 2 (PF2), which succeeded the private finance initiative (PFI), to be "inflexible and overly complex", and announced in the budget it would no longer use it for new projects. No new PF2 schemes have been started since 2016. In its economic and fiscal outlook report, the OBR said PFI and PF2 both represented a "source of significant fiscal risk to the government". A new centre of best practice in the DHSC will be established with the aim of improving management of existing PFI contracts.
- As part of the government's wider package for research and development, around £50m has been made available to fund research in the most pressing areas. The Budget mentions this might include public health and cyber security.
- The duty rates on beer, most cider and spirits will be frozen. Duty on most wine and higher strength sparkling cider will rise by RPI inflation from 1 February 2019.

- Duty rates on all tobacco products will increase by 2% above RPI inflation until the end of the Parliament. Hand rolling tobacco will increase by an additional one percentage point. This change will come into effect from 6pm on 29 October 2018.
- The Minimum Excise Tax for cigarettes will rise to £293.95 per 1,000 cigarettes. This will take effect from 29 October 2018.

Overview of other key / relevant announcements in the budget

Brexit

- A further £1.5billion will be set aside in 2019/20 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 £2.2billion allocated to departments for Brexit preparations.

Welfare

- The Budget confirms that the OBR forecasts welfare spending to remain within the Government's welfare cap and margin set at Autumn Budget 2017.
- The government is providing additional support for Universal Credit in the Budget, announcing a package of support, including;
  - Increasing the amount that households with children and people with disabilities can earn before their Universal Credit is withdrawn, the Work Allowance, by £1000 from April 2019, meaning £630 of extra income each year.
  - Housing benefit claimants will receive an additional payment providing 2 weeks worth of support during the transition to Universal Credit
  - Extending the 12-month grace period for self-employed people.
- The government announced the introduction of a new statutory entitlement to two weeks of leave for employees who suffer the death of a child under 18, or a stillbirth after 24 weeks of pregnancy.

Taxation

Income tax, national insurance and employee benefits

- From April 2019 the personal allowance and higher rate threshold will increase to £12,500 and £50,000 respectively.
- The government will reform the off-payroll working rules (IR35) in the private sector, following a consultation and the roll out of reform in the private sector.
- The government will publish a consultation on how to make the taxation of trusts simpler, fairer, and more transparent.
- Following the call for evidence published in March 2017, the government is launching the National Retraining Scheme and skills pilots to help those in work, including the self-employed.

Charity taxes

- From April 2019, the government will introduce a package of measures to reduce administrative burdens on charities including increasing the upper limit for trading that charities can carry out without incurring a tax liability. This will increase from £5,000 to £8,000 where turnover is under £20,000, and from £50,000 to £80,000 where turnover exceeds £200,000.

Business and corporate tax

- The government will introduce a new 2% tax on the revenues of big digital businesses.

Property tax

- The government will extend first-time buyers relief in England and Northern Ireland to qualifying shared ownership property purchasers. This will be backdated to 22 November 2017 and be applied to relevant transactions with an effective date on or after 29 October 2018.

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

- The government has accepted the recommendations of the independent Low Pay Commission (LPC), and will increase the National Living Wage (NLW) by 4.9% from £7.83 to £8.21 from April 2019. Living Wage will increase to £8.21 in April 2019.
- The government will announce a remit for the Low Pay Commission for the years beyond 2020 next year.

Fuel duty

- The government has announced that fuel duty will be frozen for a ninth successive year.

Business rates

- The government announced that it would be providing additional support to businesses, cutting business rates for small shops by one third.

Pensions and savings

- The lifetime allowance for pension savings will increase in line with CPI, rising to £1,055,000 for 2018/19.

Environmental taxes

- The government will introduce a new tax (subject to consultation) on plastic packaging which does not contain 30% recyclable material.
- The government will not introduce a tax on disposable cups, but will look at the best way to tackle the environmental impact of cups in the Resources and Waste Strategy, expected later this year.

- The government will provide £15 million to charities and others to distribute surplus food to avoid food waste.

Implications for the NHS and the provider sector

- The government has signalled its intention to provide budgets for capital, clinical training places and public health in the 2019 Comprehensive Spending Review. This means that trusts will have a longer wait to access to the capital they need to enable the productivity improvements they are committed to delivering.
- While the additional money for social care is welcome, we still await the Social Care Green Paper and with it details of how to achieve a long term, sustainable system of social care provision. We are clear that short term fixes and injections of money can only go so far.
- At a time when workforce is the number one concern for trusts, the lack of funding for training places and the absence of the long awaited work force strategy is worrying.
- Despite the Secretary of State for Health and Social Care's welcome identification of prevention as a key priority for the health service, there was no mention of public health in the Budget, representing a significant omission.

Press statement

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

Commitments to mental health sends right message but more support for core services needed -NHS Providers response to the Budget

The chief executive of NHS Providers, Chris Hopson, said:

For immediate release

"We welcome the commitments made to mental health in the Budget. We were also pleased to hear confirmation from the chancellor of the £20.5 billion increased funding commitment made to the NHS over the next five years, which will underpin the new NHS long term plan.

"The allocated money for mental health sends the right message about the importance of ensuring parity with physical health services. However while this funding is directed at specific new programmes, it is vital that we also see more support for core services for people with severe and long term mental health problems. And given previous commitments on mental health funding it is particularly important to ensure that, this time; any additional money does actually reach the front line.

"The extra funding for social care will offer more support to local authorities and the NHS. However, despite this, it is clear that total social care funding will still fall well short of what is needed to keep up with extra demand. It's also vital that the forthcoming Green Paper and the Spending Review provide a long

term, sustainable, resolution for social care funding, rather than forcing local authorities to rely on an endless series of short term stop-gap solutions.

"For the NHS funding settlement to deliver real value, recover performance and deliver integrated health and care, it's also vital that the forthcoming Spending Review provides the right settlement for public health, training and NHS capital. Prevention, as the health and social care secretary has flagged, must be a priority and trusts need the right buildings and equipment and the right numbers of staff with the right skills to provide outstanding care. These issues all remain unresolved while the budget for them is squeezed.

"Whilst we note the Chancellor's announcement on the future of PFI, a number of trusts with particularly onerous existing PFI contracts will need further financial support if they are to meet the Prime Minister's stipulation that no NHS organisation should be in financial deficit over the medium term. We will need the forthcoming review of NHS capital spending to set out how trusts can fund big building projects in the future.

"Attention will now turn to the publication of the NHS long-term plan later this year. This will rightly be ambitious, but it must also be realistic about what the service can be expected to deliver, given the competing priorities for resources, the steep and relentless rise in demand for care and the current financial and performance gaps the NHS currently has."

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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