

## Budget 2014

### On the day briefing – 19 March 2014

#### HEADLINE POINTS

- The Chancellor, George Osborne, positioned this as a Budget for ‘a resilient economy’, and for ‘the makers, the doers, and the savers’, where despite growth forecasts being revised up, difficult decisions still need to be made to secure recovery.
- Alongside the Budget, the Office for Budget Responsibility revised their prediction for economic growth in 2014 up to 2.7 per cent – the largest intra-budget upward revision in 30 years.
- Departments remain ahead of their consolidation targets; the OBR forecasts that departments will underspend by £7 billion in 2013-14, and will continue to underspend until the end of this Parliament.
- The 2014 health departmental expenditure limits is estimated at £105.6bn in 2013-14 (compared to a planned £106.9bn in 2013’s Budget). The Department of Health has stated this relates to learning disability grants moving to the Department for Communities and Local Government, and that this does not affect NHS spend.
- The Government expects to respond to demographic pressures on pensions and health and social care costs through fiscal prudence, reforms to the state pension age and public service pensions, and measures to deliver improved productivity in the NHS.
- The Government is looking to further reduce the waste and complexity of public services. This could include reshaping public services to better support those including vulnerable children and young people, those with mental health issues, and those in the criminal justice system.

#### THE GOVERNMENT’S POSITIONING OF THE BUDGET

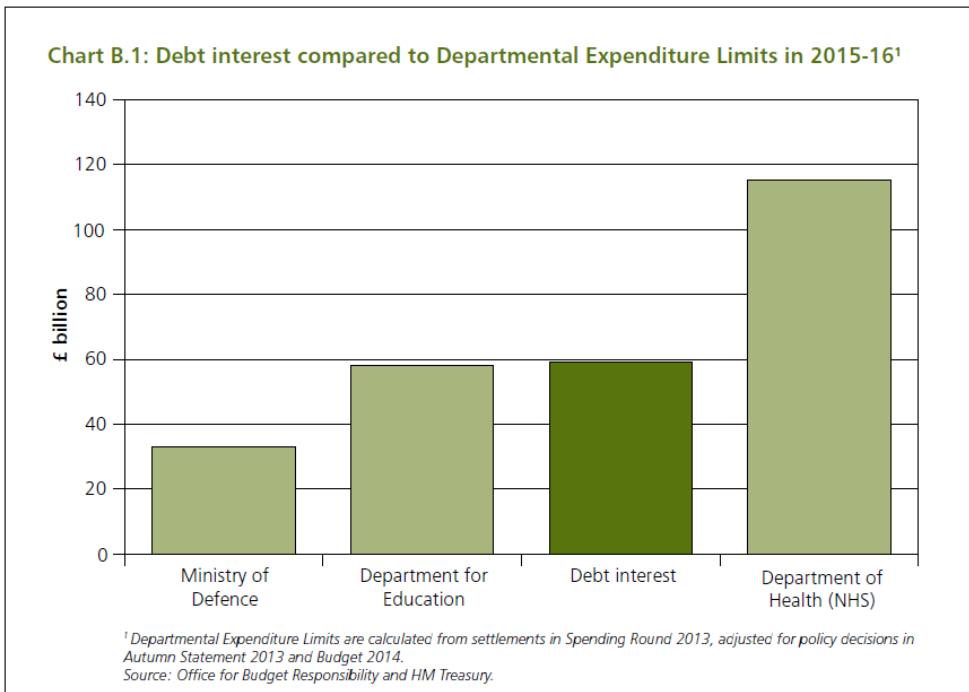
- The Chancellor was concerned to show that the plan for economic recovery is working – “Money that was going to creditors around the world, now going to pay for the NHS and other public services” – but difficult decisions are needed to secure a resilient recovery.
- The Budget is fiscally neutral, with both reduced tax and reduced spending. The new Charter for Budget Responsibility, which will be voted on by the Commons, to include the new welfare cap alongside the fiscal mandate.
- Departments remain ahead of their consolidation targets; the OBR forecasts that departments will underspend by £7 billion in 2013-14, and will continue to underspend until the end of this Parliament.

#### LABOUR’S RESPONSE

- In his response to the Budget statement, Ed Miliband focused on falling living standards and claimed the Budget confirmed people were worse off. He argued that Labour would freeze energy bills, guarantee jobs for young people, cut business rates, reform the banks, build homes and abolish the ‘bedroom tax’.

## HEADLINES ON THE UK ECONOMY

- UK annual GDP growth was 1.8% in 2013. The OBR's GDP growth forecasts revised up from 2.4% to 2.7% in 2014 and from 2.2% to 2.3% in 2015. GDP expected to return to its pre-crisis peak in the third quarter of 2014.
- CPI inflation expected to below target at 1.9% in 2014 and then to stay at the 2.0% target for the rest of the forecast period.
- Underlying public sector net borrowing as a percentage of GDP is forecast to have fallen by half from its 2009-10 peak by 2014-15, and the OBR forecasts a small surplus in 2018-19.
- Public sector net debt is forecast to peak at 78.7% of GDP in 2015-16, before falling each year and reaching 73.8% of GDP in 2018-19.



- The UK saw a net increase of over 1.6 million jobs in the private sector between the first quarter of 2010 and the third quarter of 2013.<sup>6</sup> Around 4 jobs have been created in the private sector for every public sector job lost.
- Average earnings expected to grow faster than inflation throughout the forecast period.
- Taking tax policy into account, including the Government's rise in the personal allowance, between April 2012 and April 2013 take-home pay increased faster than inflation on average across the earnings distribution, except for the top 10%.
- The OBR forecasts growth in real household disposable income per capita to turn positive this year, growing at 0.5% in 2014 and 1.2% in 2015.

## KEY STATEMENTS FOR HEALTH

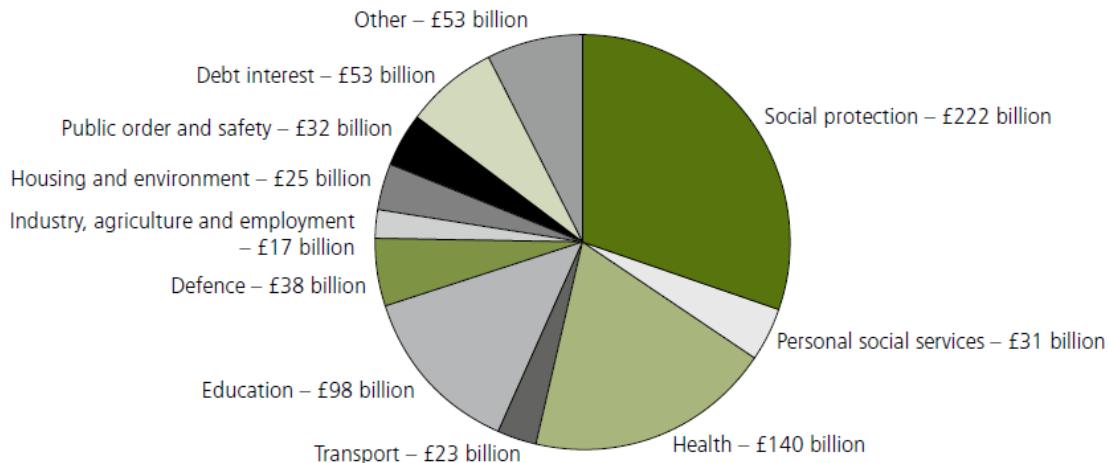
### Department of Health Spending

- In 2013, the health budget was planned to be £106.9bn in 2013-14 and £109.8bn in 2014-15. The 2014 budget estimates £105.6bn in 2013-14, and plans for £108.3bn in 2014-15, and £110.4bn in 2015-16. The Department of Health has stated this revision relates to responsibility for the Learning Disability and Health Reform Grant moving to the Department for Communities and Local Government, and that this does not affect NHS spend.

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- The Capital Departmental Expenditure Limit for Health is estimated at £4.3bn in 2013-14 (revised down from £4.3bn in 2013's Budget), and is planned to be £4.6bn in 2014-15 and £4.7bn in 2015-16.
- The chart below sets out public spending by main function. Total Managed Expenditure is expected to be around £732 billion in 2014-15.

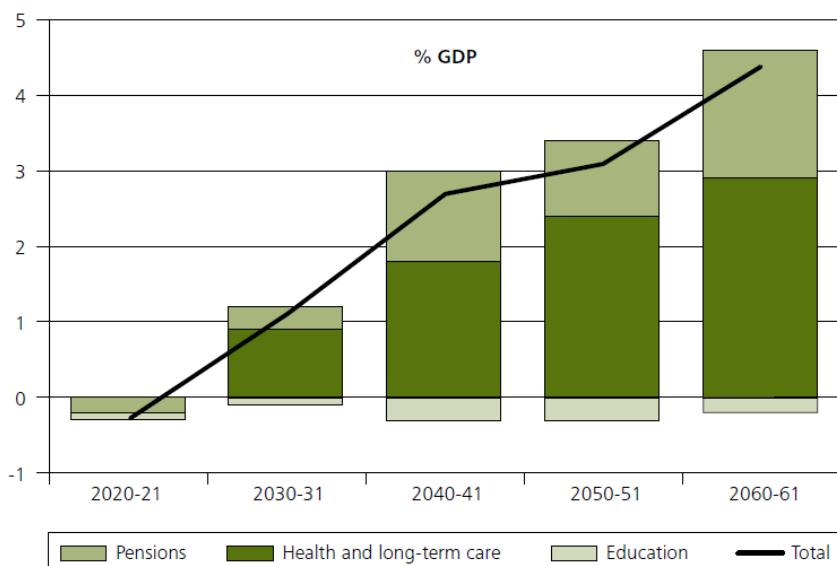
**Chart 1: Government spending 2014-15**



Source: Office for Budget Responsibility, 2014-15 estimates. Allocations to functions are based on HM Treasury analysis.

- The Budget also noted the demographic pressures on pensions and health and social care costs. As shown in the graph below, OBR projections suggest that without additional policy change, an ageing population will increase age-related spending by 4.4% of GDP between 2017-18 and 2062-63. Alongside fiscal prudence, the Government expects to prepare for these pressures through reforms to the state pension age and public service pensions, and measures to deliver improved productivity in the NHS.

**Chart B.3: Projected change in age-related government expenditure from 2017-18<sup>1</sup>**



<sup>1</sup>2017-18 marks the end of the government's fiscal assumption and the beginning of the OBR's spending projections in the Fiscal sustainability report 2013.  
Source: Office for Budget Responsibility.

## **Public service reform**

- The Government is looking to further reduce the waste and complexity of public services, whilst protecting outcomes for individuals. This could include reshaping public services to better support the unemployed into work, vulnerable children and young people, people experiencing mental health issues, and in the criminal justice system, while continuing to bear down on costs for the taxpayer. The Government is launching a seminar series led by HM Treasury which will engage with key stakeholders to consider opportunities for further reform, and to develop ideas to support further fiscal consolidation in the next Parliament.

## **Pensions and pay**

- The Budget re-confirmed last week's announcement on public sector pay awards, as well as committing to employers meeting the costs of public service pension schemes, with the Government introducing new employer contribution rates, including for the NHS Pension Scheme (E&W).
- From April 2015, the Government will change the tax rules to allow people to access their defined contribution pension savings as they wish from the point of retirement. The Government will also abolish the effective requirement to buy an annuity.

## **Grants and tax reliefs for emergency services and personnel**

- Following HMT's review of the VAT air ambulance charities incur on fuel, the Government will introduce a 5-year grant of £65,000 per year for air ambulance charities across the UK. A new air ambulance for London will be launched.
- The Government will consult on extending the existing inheritance tax exemption for members of the armed forces whose death is caused or hastened by injury while on active service to members of the emergency services.

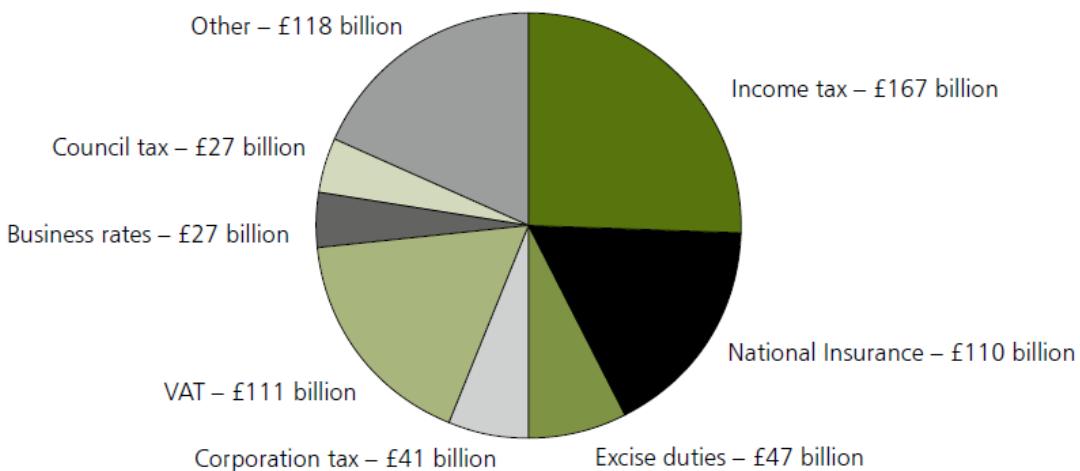
## **Science and innovation funding**

- £42 million over 5 years for the Alan Turing Institute, which will undertake new research in ways of collecting, organising and analysing large sets of data.
- £74 million over 5 years in a Cell Therapy manufacturing centre as part of the UK's Catapult network to enable large-scale manufacturing of cell therapies for late-stage clinical trials.
- £106 million over 5 years for around 20 additional Centres for Doctoral Training – partnerships between universities, businesses and government to research new technologies and train postgraduate students.

## **TAX MEASURES OF NOTE**

- The chart below shows the different sources of government revenue. Public sector current receipts are expected to be around £648 billion in 2014-15.

**Chart 2: Government receipts 2014-15**



*Source: Office for Budget Responsibility, 2014-15 estimates. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts - for example, interest and dividends. Figures may not sum due to rounding.*

- Capital allowances: Annual investment allowance for businesses doubled to £500,000 until the end of 2015.
- Corporation tax: will fall to 21% in April 2014 before reaching 20% in April 2015.
- Income tax:
  - The basic, higher and additional rates of income tax for 2014-15 will remain at their 2013-14 levels.
  - The personal allowance will rise to £10,000 in April 2014, and to £10,500 from April 2015. The personal allowance will be increased by CPI from 2016-17.
  - In 2014-15, the higher rate threshold will be increased to £41,865 and the basic rate limit will be set at £31,865. In 2015-16, the higher rate threshold will be increased to £42,285 and the basic rate limit will be set at £31,785.
- National insurance:
  - In 2014-15, the National Insurance upper earnings and upper profits limits will be increased in line with the higher rate threshold.
  - The £2,000 Employment Allowance introduced in April 2014 will lift 450,000 employers out of employer National Insurance Contributions.
- Fuel duty: remains frozen for the remainder of this Parliament; Government has applied to the European Commission for 17 of the most rural areas in mainland UK to receive a 5 pence per litre (ppl) fuel duty discount.
- VAT:
  - The Government will legislate to ensure that VAT is accounted for on the actual price paid for goods and services where prompt payment discounts are offered. The change will come into effect on 1 May 2014 for supplies of telecommunication and broadcasting services to consumers and 1 April 2015 for other goods and services.
  - From 1 April 2014, the VAT registration threshold will be increased from £79,000 to £81,000, and the deregistration threshold from £77,000 to £79,000.
  - As earlier announced, the Government will legislate to include the Health Research Authority and Health Education England within the Section 41 VAT Refund Scheme.

- The government will consult on proposed changes to the VAT Avoidance Disclosure Regime (VADR) in order to bring it more in line with the Disclosure of tax avoidance schemes (DOTAS) regime, including shifting the primary responsibility for disclosure from the users to the promoters of VAT avoidance schemes.

## FTN VIEW

- The FTN is pleased to see the importance of supporting investment in the NHS restated by the Chancellor in today's Budget statement. We also welcome the Government's recognition of the value of helping those with mental health issues. Early prevention and identification of mental health issues is an important step towards reducing growth in incidence and related issues, and achieving parity of esteem for physical and mental health would positively impact on the entire health and social care system.
- The FTN supports the Government's announcement last week on public sector pay, and its re-statement today. Our members cannot continue to provide the right quality of care to patients within the current financial constraints without taking a more radical look at NHS pay, terms and conditions. This needs to be done within the context of the broader workforce and service changes the NHS needs to make. The commitment and dedication of frontline staff is fundamental to delivering the right quality of care, but the NHS needs to balance its duty of care to its staff with its duty of care to its patients.
- The FTN will seek clarification on the impact on the Department of Health's costs, and NHS employers, following the changes also announced last week on £1bn per year in employer public pension contributions being paid by individual government departments rather than from the Treasury's central managed expenditure.
- Nevertheless, the FTN remains very concerned about the reality of the pressures facing the NHS. As the NHS works to meet evolving and increasing patient needs and activity levels, it is facing a range of concurrent financial pressures, including: flat funding; 4% efficiency savings; pooled funding; differential tariff deflators; punitive measures such as the marginal rate for A&E; and moves to seven-day services and implementation of post-Francis reforms.
- The latest estimates from Monitor, the Trust Development Authority and our own research indicate that 70 foundation trusts and trusts, and nearly 50% of acute NHS trusts in particular, will be in deficit by the end of the financial year. By 2015/16 the financial situation will have further deteriorated due to the impact of additional efficiency requirements arising from the Better Care Fund and pensions enrolment.
- This is not clinically or financially sustainable. Growing financial pressures are a barrier to delivering outstanding patient care. There needs to be a more explicit acknowledgement of, and planning for, the link between money and quality. The NHS treats a million people every 36 hours. To increase patient / staff ratios, move to seven day services, and deliver the new integrated care pathways that patients need, there needs to be significant extra investment in managed transitions to new ways of integrated working.

## FURTHER INFORMATION

- Chancellor's Budget statement: <https://www.gov.uk/government/speeches/chancellor-george-osbornes-budget-2014-speech>
- Budget documents: <https://www.gov.uk/government/publications/budget-2014-documents>