on the day BRIEFING

Autumn Statement

OVERVIEW

Today's Autumn Statement delivered by the Chancellor, George Osborne, is the last set-piece Government announcement ahead of the General Election. It aimed to showcase the Government's economic achievements, whilst reinforcing the need to "stay on course" into the next Parliament to allow completion of the "long term economic plan". Osborne asked: "*Do we squander the economic security we have gained…Or do we finish the job – and go on building the secure economy that works for everyone.*"

The Office for Budget Responsibility (OBR) highlighted that "*despite strong economic growth, the budget deficit is expected to fall by only £6.3 billion this year to £91.3 billion, around half the decline we expected in March*". This was attributed to disappointing wage and productivity growth and strong national income and spending in areas that yield least tax revenue. The OBR expects the budget to be back in balance by 2018/19.

The Autumn Statement allocates an additional £2.2 billion funding (£1.95 billion to be allocated to England) for the NHS in 2015/16, as announced in advance by the Chancellor and the Health Secretary. This will be used to help meet increased demand and deliver high quality patient care, invest in a transformation fund to help deliver the first year of the Five Year Forward View and to create a fund for advanced care to be delivered in GP practices and community health care facilities. In addition, a total of £150 million (£30 million for five years) will be invested in children's mental health, and £15 million in dementia research.

This briefing covers: the Autumn Statement's economic overview, additional funding for the NHS, other key announcements for NHS providers, and the view and actions of NHS Providers.

AUTUMN STATEMENT

ECONOMIC OVERVIEW

ECONOMIC FORECAST

- 2014 growth is forecast by the OBR to be 3%, 0.3% higher than the rate forecast in the March 2014 budget. The forecast for 2015 growth drops to 2.4% and 2.2% in 2016.
- The deficit for this year is forecasted to fall by 0.6% of GDP to 5%.
- Borrowing in 2014 is forecast to be £97.5 billion, a drop of £6.2 billion from last year, and is set to fall until reaching a £4 billion surplus in 2018/19.
- 2014 inflation rate is 1.5%, set to drop to 1.2% next year and rise to 1.7% in 2017.
- Debt as a share of GDP is 80.l4% this year and will rise to 81.1% next year.
- Tax revenues are forecasted by the OBR to be £23 billion lower by 2017-18.

FISCAL RULES

- The Chancellor plans for the deficit to fall to 4% next year.

- A new Charter for Budget Responsibility will be published next week and voted on by MPs in 2015. A review of the Fiscal Sustainability Report will be published to inform this.
- Lower tax revenues to be offset by lower welfare costs, saving money on public sector pensions and higher unemployment.
- Commitment to continuing the spending cuts at the same pace as this Parliament in the first 2 full years of the next Parliament.
- Interest in debt interest payments to be lowered by £16 billion by 2017-18.
- Public service pension reforms, proposed by Lord Hutton, to be completed bring total savings of £1.3billion yearly.
- Continued reduction of departmental spending for the first two years of the next Parliament of at least £15 billion.
- A Cabinet Office plan for a further £10billion of Whitehall administrative efficiencies to be published.
- Commitment to delivery of another £5billion from curbing tax avoidance, evasion and aggressive tax planning in the next Parliament.
- Further to the newly introduced welfare cap, benefit spending will be cut further by freezing Universal Credit work allowances for a further year and ending unemployment benefits for migrants with "no prospect of work".
- Public sector pay restraint to be continued in the next Parliament.

DEPARTMENT OF HEALTH

ADDITIONAL FUNDING

- £2 billion for the frontline NHS in England[1] in 2015-16 to further the Five Year Forward View (FYFV), part of a multi-year £3.1 billion UK-wide investment in the NHS, of which:
    - £1.5 billion to be spent on improving local NHS services
    - £200 million transformation fund to deliver the first year of the FYFV and *"kick-start the work needed to develop new ways of caring for patients to improve the integration of GPs, community services and hospitals".*
    - £250 million per year for four years for advanced care in GP practices in England. *"Bringing together GPs, nurses and specialists, the fund will pay for the modern premises and technology that will give patients access to advanced care, such as chemotherapy and dialysis, in their local communities."* To support people returning to work, these facilities will *"be encouraged to join up closely with local job centres, social services and other community services".*
- £30 million per year for 5 years on services (inpatient and community) for children's mental health services – specifically the treatment of eating disorders and to develop treatment standards for these conditions.
- At least £15 million for dementia research.

Prior to the Autumn Statement, the Chancellor and Health Secretary set out the sources of the £2 billion additional NHS funding:

- £1 billion: additional Treasury funding, released from departmental underspends outside of health (from £1.3 billion for the UK).
- £700 million: a reallocation from within the overall Department of Health budget. This funding has not to date been part of the commissioning budget, with £550 million of the funding coming from DH central underspends. The source of the remainder has not yet been publicly confirmed.
- £250 million: from banking fines for misconduct in foreign exchange markets (totalling £1 billion over four years in England).

[1] This generates £123 million in additional funding for the Scottish Government, £71 million for Wales, and £41 million for Northern Ireland in 2015-16, which they can spend next year in line with their own priorities.

In his statement to the House of Commons on 1 December the Health Secretary, Jeremy Hunt, set out how the Government intends to implement the Five Year Forward View. He confirmed the additional funding in the Autumn Statement, and also set out that to access the additional funding, *"hospitals [will be asked] to provide assured plans showing how they will be more efficient and sustainable in the year ahead and deliver their existing commitment to a paperless NHS by 2018".*

The sources of additional mental health and dementia research funding do not appear to have been confirmed as yet. However, *Community Care* reported a Cabinet Office spokeswoman as saying the money was new and would not be taken from existing funding pots: *"It's not contingent on reducing a budget elsewhere. So in the long term the aim will probably be to have less people being hospitalised but that might take some time so it's more about encouraging talking therapies and getting that more local level of care."*

POLICY DEVELOPMENTS

- NHS mandate will commit to parity of esteem between physical and mental health.
- Commitment to give local authorities and CCGs (with NHS England) indicative multi-year budgets as soon as possible after the next Spending Review.[2] This is intended to embed joint planning in health and social care and build on the Better Care Fund.[3]

OTHER KEY ANNOUNCEMENTS FOR NHS PROVIDERS

1) HEALTH, CARE AND SCIENCE

MENTAL HEALTH

- 20 million in 2015-16 and 2016-17 to fund courses to help adults experiencing mild to moderate depression, anxiety and sleep disorders in England.
- £3 million to expand existing psychological work and wellbeing pilots starting in 2015-16.

SCIENCE AND INNOVATION

- £5.9 billion into the UK's research infrastructure over 2016-21, including £1 billion of pre-commitments such as:
  - £235 million investment in the Sir Henry Royce Institute for advanced materials
  - £113 million investment in a Cognitive Computing Research Centre in Daresbury which will enable non-computer specialists to gain insights from big data in order to enhance and design products, services and manufacturing processes
  - a £42 million Alan Turing Centre in London, which will undertake new research into ways of collecting, organising and analysing big data
  - a £20 million Centre for Ageing Science and Innovation in Newcastle, utilising academic research to tackle the challenges faced by an ageing population, so ensuring optimum health and quality of life whilst reducing health and social care costs
- Rate of 'above the line' R&D tax credit to increase from 10% to 11%. Qualifying expenditure for R&D tax credits will be restricted from 1 April 2015 so that the costs of materials incorporated in products that are sold are not eligible.
- £3 billion investment in existing facilities; over half of this will be subject to competition. An additional £200 million will be allocated through the Research Partnership Investment Fund over the next Parliament by competition, drawing on industry co-funding.

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[2] In his 1 December Commons statement, the Health Secretary also expected *"that NHS England and Monitor will follow this by modernising the tariff to set multi-year prices and make the development of year of care funding packages easier".*
[3] Monitor have recently published their review on proposals for multi-year national tariff cycles. NHS Providers sits on the Payment Strategy Information Group that will further develop these proposals.

SUPPORT FOR CARERS

- The Carer's Allowance earnings limit will increase in April 2015 from £102 to £110 per week.
- From April 2015 the £2,000 annual National Insurance contributions Employment Allowance will be extended to those households that employ care and support workers. Care workers will also be exempted from the impacts of removing the £8,500 threshold below which employees do not pay income tax on benefits in kind.

2) PUBLIC SECTOR

PUBLIC SERVICES

- A further £10 billion of Whitehall efficiency savings will be sought by 2017-18. As part of this:
    - Digital transformation measures, including increasing the digital uptake of public services among those online by 10 percentage points in 2016 and improving IT procurement
    - A commitment to release enough underused public land for up to 150,000 homes between 2015 and 2020.
- Continued public sector pay reform while the government continues to reduce the current budget deficit until 2017-18, in which time it *"would expect to deliver commensurate savings"* as the estimated £12 billion saved by 2014-15.
- Exploration of a range of further reforms for the next Parliament to drive out waste and inefficiency and improve outcomes.[4]

PENSIONS

- Further action to ensure that the full costs of providing pensions for public service workers are met by employers. This announcement relates to the Armed Forces, fire-fighters, the judiciary and devolved public service pension schemes in Scotland and Northern Ireland from April 2015; changes affecting NHS pensions are already in progress.

3) TAXES AND DUTIES

VAT

- Refund of the VAT that hospice charities incur.
- From April 2015, UK search and rescue and air ambulance charities will be eligible for refunds on VAT on goods and services for non-business activities.

FUEL DUTY

- Abolition of the price based trigger point for changes to both the supplementary charge and fuel duty set by the Fair Fuel Stabiliser in 2011.
- From 1 April 2015, a reduced rate of fuel duty to aqua methanol. The rate will be set at 7.90 pence per litre.

BUSINESS TAX

- From April 2015, a statutory exemption for trivial benefits in kind costing less than £50. From April 2016, the £8,500 threshold below which employees do not pay income tax on certain benefits in kind will be removed and replaced with new exemptions for carers and for ministers of religion. The government will also exempt certain reimbursed expenses and introduce a statutory framework for voluntary payrolling. The new exemption for reimbursed expenses will not be available if used in conjunction with salary sacrifice.
- The government will continue to provide tax relief for credit loss allowances recognised in companies' accounts upon the introduction of the new IFRS 9 accounting standard.

[4] In his 1 December Commons statement, the Health Secretary announced a Compact will be signed by the Department of Health, its Arms Length Bodies and local NHS organisations with agreed plans to eliminate waste.

CORPORATION TAX AND DEBT

- The government will update, simplify and rationalise the legislation on corporate debt and derivative contracts. This will include a clearer and stronger link between commercial accounting profits and taxation, basing taxable amounts on items of accounting profit or loss. It will also include the introduction of a new relief for companies in financial distress and new rules to protect the regime against tax avoidance.
- The government will restrict the corporation tax relief a company may obtain for the acquisition of the reputation and customer relationships associated with a business ('goodwill') when the business is acquired from a related individual or partnership. This will affect acquisitions on or after 3 December 2014.

4) LOCAL GOVERNMENT

PLANNING SYSTEM

- To speed up the end-to-end planning process for major and minor applications, steps will be taken to:
    - Ensure the principle of development need only be established once
    - Take steps to speed up section 106 negotiations, including revised guidance, and consult on a faster process for reaching agreement and improving transparency on the use of section 106 funds
    - Keep the speed of decisions on major applications under review
    - Publish new data on local authorities' performance in meeting their statutory duty to process smaller planning applications within 8 weeks
    - Work with industry and local authorities to test whether more can be done to support the approval of small sites in the planning system
    - Publish proposals for consultation at Budget 2015 on making the Compulsory Purchase Regime clearer, faster and fairer, with the aim of bringing forward more brownfield land for development.

An overview of other departmental announcements is included in Appendix I.

NHS PROVIDERS' VIEW & ACTIONS

1) NHS Providers' view

The release of additional funding for the NHS is welcome. However, we recognise that the 2015/16 financial year is still significantly challenging for our members and over the coming weeks we will continuing our influencing work to help ensure this additional funding rapidly reaches the frontline providers of NHS services.

- We are concerned that the additional funding should reach those providing care as quickly and efficiently as possible. To date, NHS providers have borne the brunt of financial risk (reporting a net aggregate deficit of £108 million in 2013/14, compared to CCGs reporting a cumulative surplus of £712 million). **It is essential that additional funding should be used to support the frontline delivery of clinical care to patients across acute, ambulance, community and mental health services, rather than being lost or delayed within the system.**
- **The NHS is still facing a very difficult financial outlook in 2015/16 and beyond.** The Government is strongly associating the £2 billion funding with delivering the Five Year Forward View. Nevertheless, as NHS Providers has consistently argued, the NHS is facing a £2 billion funding gap in 2015/16 and any additional funding must also recognise the costs of maintaining and delivering existing performance commitments. Investment is needed both to maintain services and invest in the transformation towards new care models.
- Although the financial performance for acute providers is currently worse than non-acute providers, any further disinvestment in the non-acute sector will exacerbate the situation across all providers. Moreover, each service has been under distinct pressures. For example, mental health services have been under increasing pressure, with waiting times for people needing to see a specialist mental health team growing by a third between 2010/11 and 2012/12, reversing previous progress in the area. It is also increasingly clear that additional funding for the introduction of access standards for mental health services are unlikely to meet projected demand. **Money needs to be allocated fairly to all NHS secondary care organisations, with parity of funding between all types of NHS provider.**

- We have argued that any additional funding in the Autumn Statement should have been allocated through the tariff and to offset the deflation of off-tariff service contracts. This would have allowed providers and commissioners to plan the delivery of patient services more strategically, ensure local needs are met in the most appropriate way, and avoid extra money being spent inefficiently. We therefore need to clarify how this additional funding relates to the tariff and associated mechanisms – which effectively removed £1.2 billion from frontline services through the 3.8% efficiency requirement – and through what mechanism it will be allocated. If not allocated directly through the payment system, **there must be absolute transparency for providers about when and how much funding they will receive over the course of financial year, commissioners' decision making process, and formal provider engagement in the allocation of local funding is essential**.
- **NHS trusts and foundation trusts are closest to the needs of their local patients and must have the autonomy to decide how best to spend the money to improve clinical services and productivity.** We will work with the TDA, NHS England, Monitor and the CQC to ensure the funding allocation process is streamlined, learns from the delays we have seen in the flow of non-recurrent resilience funding, and appropriately respects local decision-making and autonomy in prioritising where investment should be made. We will also work with DH and the ALBs to minimise the number of bureaucratic conditions that are attached to the release of this additional funding.
- **We called in our Programme for the next Parliament for a multiyear settlement and tariff for the NHS** and are delighted that this approach has the support of the Government. This will give providers greater confidence in the future and better enable investment for the greatest benefit to patients and service users. We look forward to working with the Government and the ALBs in understanding the implications for this, and similarly we look forward to further detail around the Compact on improving NHS efficiency.
- **We are seeking further detail on the specific sources of funding (both the £2 billion for the NHS and the separate £150 million for children's mental health), and the impact on budgets for the arm's length bodies** in the clinical education and training (Health Education England) and prevention (Public Health England) work which remain a key part of the Five Year Forward View.

2) NHS Providers' actions to date

- We wrote to both the Chancellor and Chief Secretary to the Treasury in September and November in order to set out the challenges facing NHS providers in 2015/16, the impact of high efficiency savings on providers being able to invest in transformational change, and the stark choice now facing many providers – maintaining service quality or inexorably sliding into unsustainable financial deficit. We argued for an "invest to save" strategy, rather than continuation of a "more for less" approach, with any additional funding channelled through the tariff.
- Chris Hopson gave evidence to the Health Select Committee's inquiry into public expenditure on health and social care, stating *"we need £2 billion in the autumn statement for 2015-16 in order to ensure that the NHS stays upright next year. … [A royal commission] clearly won't happen quickly enough for 2015-16 and for the next Parliament, but we do need something similar for the longer-term health and social care integration bit."*[5]
- Our Programme for the next Parliament set out the priorities for NHS funding in order to invest to transform the NHS into a sustainable 21st century service:
  - Allocate sufficient funding to protect the core values of the NHS
  - Mobilise a robust, public discussion on NHS funding and priorities
  - Pay NHS providers for the full cost of the care they deliver
  - Make resources go further through multiyear funding and planning frameworks
  - Enable the NHS to invest in efficiency, improvement and innovation
- In the past week we have issued the following press statements on NHS funding:
  - Calling on the Government to avoid an NHS cash crisis and worse quality of care in 2015/16 by closing the £2 billion funding gap with additional money in the Autumn Statement.

[5] http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/health-committee/public-expenditure-on-health-and-social-care/oral/15848.html

- Showing the impact of the national tariff on NHS providers in 2015/16, with the efficiency requirement amounting to £1.2 billion being taken away from frontline services with only an Autumn Statement boost being able to avert a cash crisis.
- Welcoming the Autumn Statement's expected £2 billion additional funding (1.5% real terms increase), but also cautioning that 2015/16 still presents a significant challenge to the NHS.

- We have issued two blogs – on the national tariff and the Autumn Statement – making clear the need to allocate the funding efficiently and effectively.
- We have today issued a press statement on the Autumn Statement (also in Appendix II below).

APPENDIX I: OTHER DEPARTMENTAL HEADLINES

BUSINESS AND ECONOMY

- £45m to connect British businesses with emerging economies and new support for first time exporters.
- A new diverted profits tax of 25% for multinationals on profits shifted out of the country.
- Bank profits offset against losses to be limited to 50%.
- The British Business Bank will be expanded to encourage peer-to-peer lending.
- Funding for Lending scheme extended by a year and focused exclusively on smaller firms.
- Small business rate relief doubled for another year, inflation-linked increases in business rates capped at 2% and a review of the structure of business rates will be conducted.
- Help for the high street will be increased by 50% cent to £1,500 next year.
- The Entrepreneurs' Relief and the Social Investment Tax Relief will be strengthened.
- R&D tax credit for SMEs increased to 230 % and credit for large firms to 11%.
- National insurance for apprentices under 25 to be abolished.
- Personal allowance threshold will rise to £10,600 next year and the higher rate threshold raised to £42,385.
- Non-domiciles to pay £60,000 to preserve their non-domicile tax status and a new £90,000 charge for those resident in this country for 17 of the past 20 years.

TRANSPORT

- Air passenger duty abolished for children under 12 next year and for . From the children under 16 in the following year.
- Fuel duty frozen until May 2015.
- New franchises for Northern Rail and the Trans-Pennine Express to be tendered.
- The government's launched its 2014 National Infrastructure Plan on 2 December, setting out £15 billion investment in road improvements and £2.3 billion in flood defences.

ENERGY AND ENVIRONMENT

- Creation of a sovereign wealth fund for northern regions for shale gas resources.

DEVOLVED ADMINISTRATIONS

- Business rates to be fully devolved to the Welsh Government and a cross-party agreement on further powers for next March.
- Devolution of corporation tax to Northern Ireland.
- Draft clauses of Lord Smith's Commission on Scotland to be published in 2015.

WELFARE AND PENSIONS

- Abolition of tax on passing on the unused pension pot of a deceased person.
- ISA limits to be increased to £15,240 and spouses to inherit ISAs with tax free status retained.
- Joint life or guaranteed annuities to be passed on tax free for those who die before 75.

HOUSING

- Abolition of the slab stump duty system. Each stamp duty rate will only apply incrementally.

EDUCATION

- Postgraduate student loans of up to £10,000 in any subject.

APPENDIX II: PRESS STATEMENT ON AUTUMN STATEMENT

Extra £2 billion in Autumn Statement is essential support for NHS frontline

3 December 2014

Chancellor's announcement of an extra £2 billion for the NHS in England in 2015/16 is welcome
In response to today's Autumn Statement announcing extra funding for the NHS in 2015/16, Chris Hopson, chief executive, NHS Providers, said:

"Given that the current financial year is difficult enough for providers, George Osborne's announcement of an extra £2 billion for the NHS in England in 2015/16 is particularly welcome.

"For some time we have argued that without extra funding in 2015/16 the quality of patient care could be compromised and the entire provider sector placed at risk of financial failure. Today's signal from the Government will help to support the providers of acute, ambulance, community and mental health services to maintain the world class standards they deliver. It is essential that this funding reaches the providers of frontline patient services as efficiently as possible to deliver benefits for patients and the tax payer. We will work with the TDA, NHS England and Monitor to ensure the funding allocation process is streamlined and appropriately respects local decision-making and autonomy in prioritising where investment should be made."

"To make resources go further, we called in our Programme for the next Parliament for multiyear funding and planning frameworks for the NHS. We are pleased that this approach has the support of the Government and will give providers greater confidence in planning the best possible service for patients in the future.

"We're also pleased with the Deputy Prime Minister's pledge to invest an extra £150m to help children with eating disorders. This is much needed investment in prevention and support for providers of community and mental health services who are facing rising levels of demand for all types of mental health needs. It is a further sign of the importance of fairly allocating funding across all parts of the provider sector.

"NHS providers are projected to end the 2014/15 financial year at least £533m in deficit, with the deficit in 2015/16 potentially reaching £1.1bn. It is important to recognise that this extra £2 billion is not a magic wand and that providers of frontline services need both sufficient investment to maintain existing services and sufficient funding to transform how services are delivered in future. Our members are already harnessing new technology, delivering care closer to patients in the community and redesigning services across whole health economies. Funding support is needed to continue these efforts if we are to realise the ambitions of the NHS Five Year Forward View.

ENDS

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