



briefing

Emergency Budget - 22 June 2010

Key Points for NHS in England

The Chancellor of the Exchequer, Rt Hon George Osborne MP, has today delivered the Government's Emergency Budget.

As with recent budgets, there was little reference specifically to the NHS during the Chancellor's speech although he announced that the NHS budget would receive real increases throughout this Parliament. With the exception of the Department for International Aid and Development, other Government departments will receive an average real cut of 25% over four years although some will receive larger budget reductions than others.

A two year pay freeze for public sector workers was announced today and will play its part in achieving the £15-20bn efficiency savings required of the NHS over the next five years. This will apply to all public sector workers except those who earn less than £21,000, who will get an increase of at least £250 in these years. The Government also announced today that the minimum wage will rise from 1 October 2010 to £5.93 for those aged over 22, £4.92 for workers aged 18-21, and £3.64 for those aged 16-17.

Plans for NI rates to increase by 1% in April 2011 were confirmed, but the threshold for employer NI contributions will increase by £21 a week above indexation which will reduce its impact on the NHS.

However, a VAT rise to 20% from 4 January 2011 will mean a simultaneous rise in the cost of goods, services and equipment. Insurance premium tax will also rise.

Stressing that this was a progressive budget, the Chancellor announced that 23 million taxpayers would benefit from a rise in the personal allowance for income tax of £1,000.

No further cuts in capital spending totals were proposed beyond those previously announced as part of the £6.2 billion savings.

The Government said that the Comprehensive Spending Review will take place on Wednesday 20 October.

Pay

Public sector pay

The Chancellor announced a two year public sector pay freeze from 2011-2012. This will apply to public sector workers except those who earn less than £21,000, who will get an increase of at least £250 in each of these years.

Minimum wage

Following the recommendations of the Low Pay Commission, the Government also announced today that the minimum wage will rise from 1 October 2010 to £5.93 for those aged over 22, £4.92 for workers aged 18-21, and £3.64 for those

aged 16-17.

National insurance

The Government inherited plans for National Insurance rates to increase by 1% in April 2011. The negative effect of the employer rate rise will be largely reversed by increasing the threshold for employer National Insurance Contributions (NICs) by £21 a week above indexation. As a result, the number of employees for whom employers pay no NICs will rise by 650,000.

Pensions & retirement

Public service pensions

The Government confirmed it will carry out an investigation into public service pensions and report in full in time for next year's Budget, although an interim report will be published in September. The review will look at:

- the growing disparity between public service and private sector pension provision;
- the need to ensure that future pension provision is fair across the workforce;
- how risk should be shared between the taxpayer and employee; and
- wider Government policy intended to encourage adequate saving for retirement and longer working lives.

The Government will use the Consumer Prices Index (CPI) for the price indexation of benefits and tax credits from April 2011. This change will apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues.

State Pension

From April 2011, there will be a triple guarantee so that the basic State Pension will rise by either: earnings – the average increase in UK wages

that year prices – how much the cost of living increases that year 2.5 per cent

The basic State Pension will rise each year by whichever gives the highest amount.

Retirement age and state pension age

The Government will review when the State Pension Age will rise to 66. There will be a call for evidence shortly on how quickly it will phase out the Default Retirement Age from April 2011.

Pensions tax relief

The Budget states that the Government will continue with plans it inherited to raise revenues from restricting pensions tax relief. Provisional analysis suggests that an annual allowance in the range of £30,000 to £45,000 would raise the necessary yield. The Government wishes to engage employers, pension schemes, experts and other interested parties to determine the best design of a regime.

Spending

The Government announced additional reductions in the Budget in current spending totals of £30 billion a year by 2014-15.

The 2010 Comprehensive Spending Review will be published on 20 October 2010.

The Government's national engagement programme will give public sector workers and members of the public an opportunity to feed in their ideas for reducing spending. An online event will launch on the 24 June 2010 inviting public sector workers to submit their suggestions. Following this, members of the public will be asked to submit their ideas online. The Government will take forward the most promising ideas as part of the Spending Review process.

Capital spending

No further cuts in capital spending totals, beyond those announced as part of the £6.2 billion

savings previously announced, were proposed.

Personal taxes

Income tax

The personal allowance for people aged under 65 will increase by £1,000 in April 2011.

This means the amount of income individuals under 65 can receive without having to pay tax on it will rise from £6,475 to £7,475 for the 2011-12 tax year. This increase will benefit 23 million taxpayers.

Alcohol duty rates

The rate of tax on cider and perry will be reduced from 30 June 2010-11.

Secondary legislation will be introduced shortly to increase tax on cheap, strong ciders. The Government will also review alcohol taxation and pricing and will report in the autumn.

There will be no increases in the rate of duty on beer, wine or spirits at this Budget but the Government will continue with the plans it inherited to increase the rates by 2 per cent above inflation each year to 2014-15.

Tax credits and grants

- From April 2011 the Government will restrict eligibility for the Sure Start Maternity Grant to the first child only and abolish the Health in Pregnancy Grant from January 2011. Mothers that are already pregnant should not be affected.
- Child benefit will be frozen for the next three years.
- Disability living allowance will not be reduced, but a medical assessment will be applied to new and existing claimants from 2013.
- Tax credits will be reduced for families earning over £40,000 and the taper rate increased.

Deregulation

New regulations

The Government has announced that it will reduce regulatory costs by introducing a one-in-one-out system for new regulations. The Department for Business, Innovation and Skills will publish further details in July 2010.

The Government's plans for reducing burdens include:

- Fundamentally reviewing all regulation scheduled for introduction over the coming year. These regulations will not be implemented until they have been reviewed and re-agreed by the Reducing Regulation Committee;
- Imposing sunset clauses on regulations. Regulations will cease to be law after seven years unless Parliament has confirmed they are still necessary and proportionate, or they were explicitly set to have a longer timeframe

Changes to employment regulations

The Government's plans for reducing burdens on employment regulations include:

- Requiring each relevant Department to start immediately a review of the employment laws for which they are responsible. Changes to employment law will be made as part the Government's one in-one-out approach to regulatory reform.
- Working with European partners to ensure that new proposals for EU regulation are rigorously costed at an early stage, and that existing legislation is reviewed with the aim of reducing the burden on European businesses

Other

Insurance premium tax

The standard and higher rate of Insurance

Emergency Budget 2010

Premium Tax (IPT) will rise from 5% to 6% and 17.5% to 20% respectively from 4 January 2011.

Local government

The Government will work with English local authorities to freeze council tax in 2011-12. The Government will clarify in due course the terms under which local authorities that commit to freeze or reduce their council tax will be compensated.

Climate change levy

In the autumn, the Government will publish proposals to reform the climate change levy in order to provide more certainty and support to the carbon price. Subject to consultation, the Government intends to bring forward relevant legislation in Finance Bill 2011.

Landline duty

The proposed landline duty will now not go ahead.

The state of the economy

Growth

The interim Office for Budget Responsibility (OBR) has estimated that GDP will grow by 1.2% in 2010, 2.3% in 2011, rising to 2.7% to 2.9% in the later years of the forecast

Debt

Public sector net borrowing is expected to fall from 11% of GDP in 2009-10 to 1.1% in 2015-16.

Public sector net debt will increase from 53.5% of GDP in 2009-10 to a peak of 70.3% in 2013-14, falling to 69.4% in 2014-15 and 67.4% in 2015-16.

Response of the opposition

Responding to the Chancellor of the Exchequer, leader of the Opposition Rt Hon Harriet Harman MP said this was a reckless budget, driven more by ideology than economics. Arguing that the

Budget will throw people out of work, hold back economic growth and harm vital services, she said that this was a budget of broken promises as the Conservative leader had suggested he had no plans to increase VAT.

Welsh NHS Confederation media statement

Commenting on today's budget, Welsh NHS Confederation acting Director, Kate Watkins said: "The figures announced for reductions in public sector expenditure has brought the scale of the challenge facing NHS Wales into sharp focus."

She went on to say, "Wales faces higher health related needs than in comparable areas in the rest of Britain: a disproportionate ageing population and massive inequalities in health across the nation. Clearly any budget reductions will have major implications."

"It will be essential for the NHS in Wales to work with its partners to develop new and creative ways of delivering higher quality services at a lower cost"

She concluded, "There are some very tough choices ahead – but what is very clear is that the status quo is no longer an option that is available to us."