Spring Statement 2022:
Summary for BMA members

This document provides a summary of the key takeaways from the Chancellor's 2022 Spring Statement on 23 March 2022. The focus of the Spring Statement was on measures to support families and businesses with the cost-of-living crunch over the coming year through tax reductions. There were no new announcements to protect the healthcare system from higher-than-expected inflation. Below we outline the economic forecast, what was and wasn't in the statement, and then discuss the financial impacts on members.

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Context

The Spring Statement is an annual statement made by the Chancellor of the Exchequer to the House of Commons. It is one of two major scheduled fiscal announcements by the Chancellor each year, the other being the Autumn Budget. It provides an update on progress made since the Autumn Budget, as well as an update on the overall health of the economy based on updated Office of Budgetary Responsibility forecasts.

The Spring Statement is often referred to as a 'mini-budget'; it is intended to be more of an update and not to include major announcements, which are usually reserved for the Autumn Budget. Last year, the Autumn Budget was accompanied by a Spending Review (SR21) which set out each government's department budget and spending plans, over the next three financial years (2022/23 to 2024/25), including for the DHSC (Department of Health and Social Care) and the NHS. It gave a major funding boost to the DHSC of £28 bn per year on average in cash terms compared to 2021/22 (excluding ring-fenced COVID funding). An additional £8.7 bn per year on average will be provided through the Barnett formula to devolved nations. See the BMA's analysis of SR21 here.

Ahead of the Spring Statement, the BMA wrote to the Chancellor to set out our view on the key priorities for the health and care sector over the next financial year and beyond. These priorities were: ensuring safe staffing levels in the health system through expansion and retention of the existing workforce and to ensure worrying trends in declining population health are reversed. We therefore called for, among other things:
– expansion of medical school places,
– appropriate pay awards and pension taxation reform,
– upgrading outdated infrastructure in primary and secondary care,
– investing in the wider determinants of health beyond healthcare.

Economic forecast

The economy has continued its recovery from the pandemic, but surging inflation has led to growth adjusted for inflation to be revised down by the OBR. The economy is now around 0.5 per cent larger in cash terms than expected in October and unemployment almost 400,000 lower. However, the OBR has more than doubled its forecast for 2022/23 inflation to 8 per cent (as measured by CPI). As a result, growth adjusted for inflation has been revised down from the expected surge of 6 per cent to 3.8 per cent.

Inflation is expected to outpace earnings growth, and combined with net tax increases from April, will have a sharp impact on living standards in the coming year. Real disposable household income (income adjusted for taxes and inflation) is projected to fall by 2.2 per cent in 2022/23, the largest fall in a single financial year since records began.

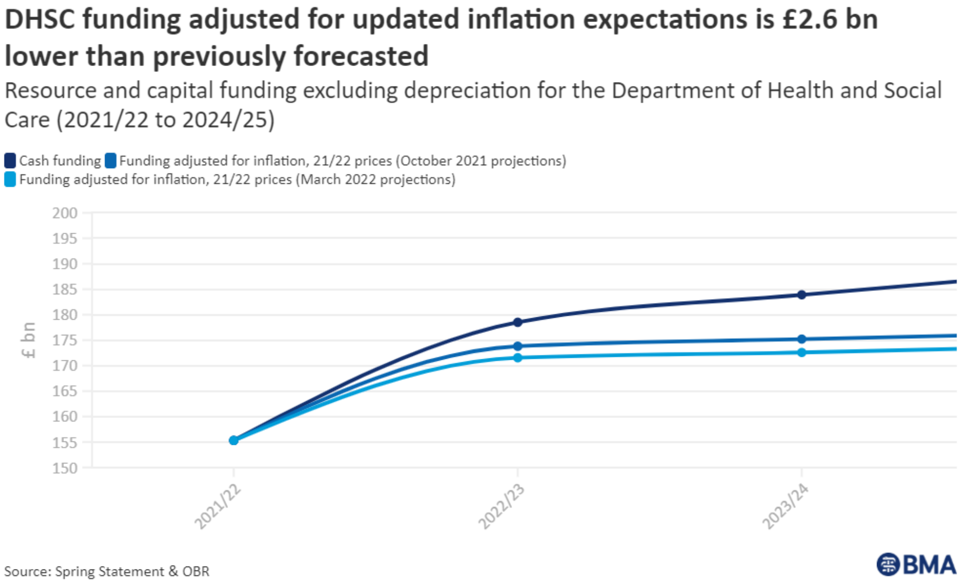
Public finances have recovered from the pandemic more quickly than previously forecast, and the Chancellor has significantly more scope to increase spending than expected. Tax receipts were revised up by 4 per cent compared to the autumn 2021 forecast thanks to strong growth in tax revenue paid by higher earners and by companies, and so the Chancellor is forecast to have an additional £37 bn in receipts by 2024/25. This is only partially offset by higher spending (for example on welfare and debt repayments) as a result of higher inflation. Once these have been taken into account, the Chancellor still has around £28 bn in additional spending power by 2024/25.

What was in the statement

Health and care funding

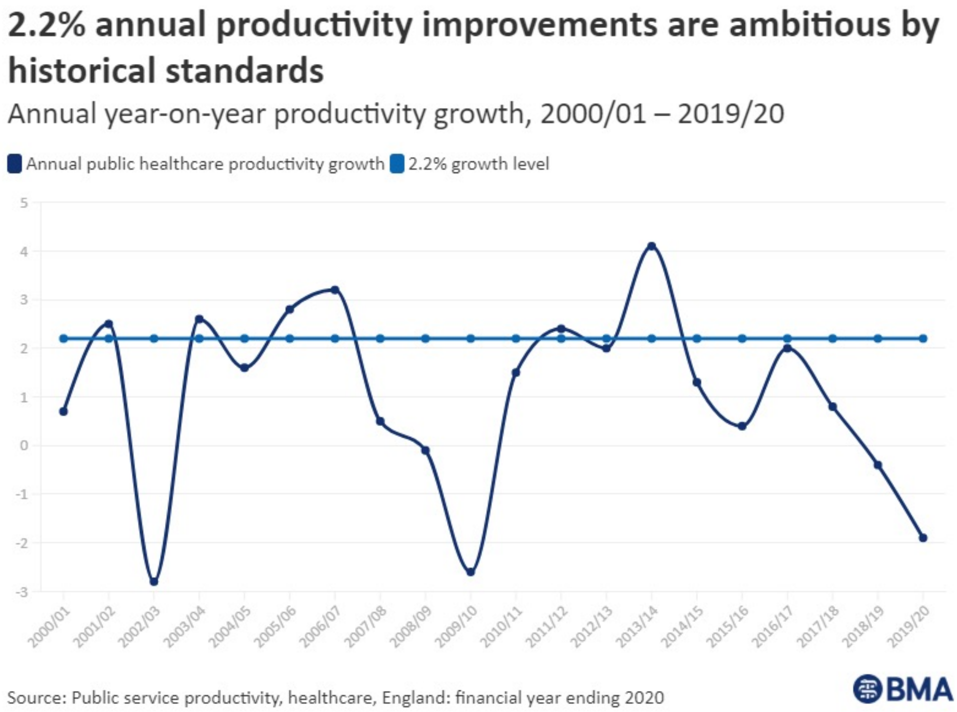
On health and care funding the Chancellor announced:
- no increases or decreases to health spending,
- confirmation that the new health and care levy will go ahead (although the threshold at which you start to pay it will be raised),
- the NHS efficiency target will double from 1.1 per cent to 2.2 per cent and this will include a review of Arm's Length Bodies including NHS England and NHS Improvement.

Funding for the Department of Health and Social Care was set out in October in the CSR. There were no new announcements either increasing or decreasing the cash amount set out then. However, higher than expected inflation including soaring energy prices means that the amount available to spend, adjusted for inflation, is lower than expected. It is now only set to grow by 3.6% per year, down from 4.1% under October forecasts, and below historical average growth. The Chancellor has chosen not to do anything to alleviate increasing costs to the health system.



The 1.25 per cent Health and Social Care levy linked to National Insurance was retained, as we called for in our pre-Spring Statement submission. However, since the Chancellor raised the threshold at which you start paying NICs (starting from July), this reduces the amount raised from the levy by approximately £500 mn compared to what would have been raised before the Spring Statement announcement. Nevertheless, rising wages and inflation means that previous estimates of the levy have been revised upwards –from £12 bn per year to £17 bn per year over the next three years. This additional revenue is not being directly passed on to the health and care system – instead less funding will be needed from general taxation to fund the DHSC. In fact, the Institute for Fiscal Studies point out this shows there is no relationship between the amount raised by the levy and health and social care spending.

The government also announced that it will double the NHS efficiency target (that is the productivity improvements the NHS is expected to make) from 1.1% to 2.2%. They estimate this will raise £4.75 bn for the NHS in England to spend on NHS priority areas. This is intended to contribute to the SR21 promise to provide savings of 5% against day-to-day central departmental budgets overall in 2024/25. It is expected these efficiency savings will be made through a range of programmes including the digitisation of diagnostic and front-line services, which the government claims has been shown to reduce cost per admission by up to 13% (although it has not provided a source for this). In addition there will be a review of ALBs, launching in April 2022 which is expected to save £800 mn across government (it is not clear yet how much this would be from health system ALBs). It is worth noting that the previous 1.1% efficiency targets have not been met since it was set in the 2019 NHS long term plan (public service healthcare productivity decreased by 1.9% in 2019/20, due to increased cost of inputs, particularly goods). A 2.2% in-year productivity growth has only been reached twice in the last decade (2011/12 and 2013/14), likely due in large part to pay freezes.



Climate change / Net Zero

With regards to the UK's long-term Net Zero ambitions, the Spring Statement addressed:

- VAT relief and time limited zero rate on the installation of energy saving materials (ESMs),
- business rate exemptions for plant and machinery used in onsite renewable energy,
- a temporary 12-month fuel duty cut of 5p per litre on petrol and diesel.

To help households improve energy efficiency and support the UK's long-term Net Zero ambitions, the government has extended the VAT relief available for the installation of energy saving materials (ESMs), with wind and water turbines to be added to the list of ESMs, with the Northern Ireland Executive receiving a Barnett share of the value of the relief until it can be introduced UK-wide. In addition, there will be a time-limited zero rate for the installation of ESMs. The government has also committed to bringing forward measures – from April 2023 to April 2022 – that introduce targeted business rate exemptions for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible low-carbon heat networks.

On the other hand, the Government has announced a temporary UK wide cut to fuel duty, in an attempt to alleviate households' struggles with the cost of living (see below). However, this does not incentivise switching to less polluting options and reducing fuel duty could cause the government to lose tax revenue, which could be invested in secure and clean energy or used to fund policies that reduce energy demands in homes and industry.

Support for cost of living

The Chancellor reiterated previously announced measures to support families with the cost of living, including:

- Reducing the Universal Credit taper rate and increasing work allowances (ie. allowing people on Universal Credit and in work to keep more of their benefits)
- Increasing the minimum wage for workers aged 23 and over by 6.6% to £9.50 an hour from April 2022
- £9 billion package of support on energy bills

There were also several new announcements of measures that will support households, costing a total of just over £9 billion:

– A temporary 12-month (April 2022 – March 2023) cut to fuel duty of 5p per litre (a tax cut of £2.4 billion total, compared to a rise in fuel duty, saving the average care driver £100 per year – although it must be noted that fuel duty has in fact been frozen since 2010)
– An increase in rate at which employees start paying National Insurance from £9,880 to £12,750 in July 2022 to align with income tax thresholds
– A £500 mn increase to the discretionary Household Support Fund

The package of support is quite significant, but is not particularly targeted at those living in poverty and most likely to struggle with the rising cost of living. It is targeted towards those who drive and those in work. As a result, the average gain from these measures for those in the top half of the income distribution is £475, compared to a gain of just £126 for the poorest fifth of households. There was limited support targeted at those at the lower end of the income distribution. In particular, those on benefits are likely to face a large effective cut in income over the next year as benefits will be uprated according to September inflation of 3.1%, compared to expected inflation of 8.0% on average in 2022/23. As a result, income inequalities will likely be exacerbated, with subsequent impacts on health inequalities.

However, the government did confirm that the second round of the Levelling Up Fund, with £3.1 bn available for local infrastructure projects across the UK, which may help create jobs and improve determinants of health – although the fund has been criticised as potentially not being targeted at the areas with highest need.

The Chancellor also announced a future reduction of basic rate of income tax from 20% to 19% from April 2024, although the personal allowance threshold will remain frozen at £12,750 until then. This means 1.3 million more people will likely start paying income tax who wouldn't have done if it rose in line with inflation.

Research

The Spring Statement confirmed reform to the Research and Development (R&D) tax relief:
– All cloud computing costs (associated with R&D) will qualify for relief
– Government partnership with industry and academia to create 1,000 new AI PhDs

The government has announced that from April 2023, all cloud computing costs associated with R&D will qualify for relief, with reliefs extending abroad where it is necessary for R&D activities to take place overseas. The definition of R&D rax reliefs will also be expanded to include pure mathematics as qualifying cost, in support of the growing volume of work underpinned by mathematical advances.

They also announced an investment of £117 million to create 1,000 new AI PhDs through Centres for Doctoral Training (CDTs), with the investment leveraging industry and university funding. This will build on the 16 existing CDTs across the UK and will aim to train a new generation of AI researchers to develop the use of AI in various sectors such as healthcare.

The R&D tax relief reforms in conjunction with the government partnership with industry and academia may be of benefit to clinical academics.

Ukraine

The Spring Statement provides details on the measures the UK has adopted to support Ukraine and Ukrainian people in response to Russia's invasion of Ukraine. The measures of support the UK will provide to Ukraine focus on:
– assisting Ukraine's self-defence,
– providing humanitarian and economic support for the Ukrainian people
– maximising economic pressures on Putin's regime.

In the current conflict, the UK has provided over £100 mnof military aid to Ukraine, with the government enabling up to £3.5 bn of export finance to support Ukraine. In addition, the UK has committed around £400 mn in urgent economic and humanitarian support to Ukraine and it has launched the 'Homes for Ukraine' sponsorship humanitarian visa scheme and the Ukraine Family Visa Scheme, to support Ukrainian refugees forced to flee and to allow British and Ukrainian nationals to bring Ukrainian family members to the UK. Finally, it has imposed asset freezes on Russian banks and high-value individuals, entities, and subsidiaries, barred Russian companies from raising funds in the UK, announced additional import tariffs, and committed to phasing out of Russian oil.

What was not in the statement

It is disappointing that several key public health and healthcare areas were not addressed within the Spring Statement. The government made no new announcements on recruitment or retention plans to address current workforce shortages and the ongoing backlog. The BMA has asked for an increase of over 11,000 medical graduates per annum on average over the next three years (costing £2.7 billion per year by 2024-25) and a £1 billion welfare and wellbeing fund to address exhaustion and fatigue within the NHS. Furthermore, the Spring Statement made no announcement in relation to pensions.

In addition, the Spring Statement made no reference to the measures to combat the ongoing pandemic. The BMA has been asking for investment towards the maintenance of COVID testing for healthcare staff as well as maintaining COVID testing for the general population, neither of which were addressed in the Spring Statement.

Financial impacts on members

Several of the announcements yesterday (or not made yesterday) will have impacts on members' finances. The increase of the NICs threshold will mean that employees in earning over the new threshold of NICs (that is, over £12,750) will have an additional take home of £285 in the next financial year1. Higher-earning self-employed people do not gain from this as the self-employed NICs structure is separate.

There were no new announcements on pensions, which means as previously announced the lifetime allowance (the amount your pension pot can grow before you must repay income tax relief on your pension contributions) will remain frozen at £1,073,100 next year instead of being uprated by CPI – if it had been uprated with forecasted inflation of 8.0% it would be £85,840 higher.

The Employment Allowance was increased from £4,000 to £5,000, meaning small General Practices whose annual National Insurance liabilities are less than £100,000 will be able to reduce their National Insurance bills by up to £1,000.

1 This is calculated as the 12% NICs rate plus the 1.25% health a social care levy rate on the earnings between the old threshold and the new threshold, adjusted as it will be realised until July 2022.

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