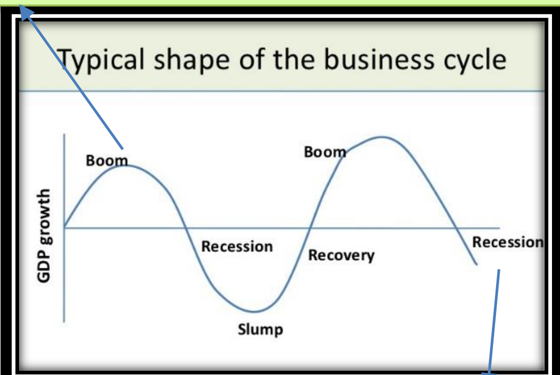
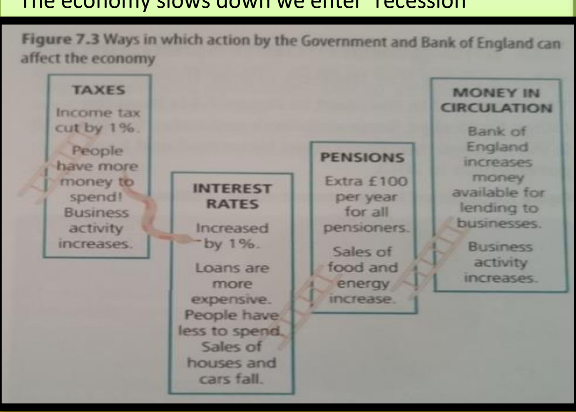
Revision Summary Sheet – Finance, Economy and Money

Imports	Goods and services brought from overseas	**Risk Management**	a process for identifying, assessing and prioritising risks of different kinds. Once the risks are identified, a plan will be created to minimise the impact of negative events.
Direct tax	A tax on the income or profits of individuals and businesses.	**Indirect tax**	A tax, such as VAT, which is charged on the goods and services brought by individuals and businesses.
Austerity	Reductions in peoples wealth resulting in government measures to reduce public expenditure.	**Standard of living.**	A measure of wealth and material support available to individuals and communities.
State Provision	Run/provided by the government	**Private Provision**	Run/provided by a private company, that may have links with state provision.
Nationalised	Where the state owns and runs a part of the economy	**Budget**	An annual statement made by the Chancellor of the exchequer to the House of Commons about the taxation and spending policy for the forthcoming year.
Economy	All business activity and wealth creation that takes place in a country.	**Command economy**	A national economy where all elements of the economic system are controlled by the government.
Recession	a period of temporary economic decline during which trade and industrial activity are reduced	**Market economy**	A national economy where most of the economy is run by the private sector and the state owns and runs limited elements.
Mixed economy	A national economy that has elements of run and owned by the state and others run by the private sector	**Interest rate**	The proportion of a loan that is charged as interest to the borrower, typically expressed as an annual percentage of the loan outstanding.

In a 'boom' things are going well – invest in new equipment, have lots of orders, employ more workers, make more profit.



However – costs go up (materials, wages), prices go up, people cant afford services or products.
The economy slows down we enter 'recession



Growing economies levels of business activity are high: people have jobs and money to spend. In a growing economy it is easy to borrow money as banks and other lenders are confident that people will be able to pay back their loans. Businesses are likely to borrow money so they can expand and in doing so they will be able to create more jobs. Consumers tend to borrow more money too – spending it on higher value items such as houses and cars. As such this leads to higher levels of business activity and creation of further jobs. The government also benefits from economic growth. Higher earnings means that more tax is collected, therefore the government has more money to available to be able to expand public services e.g. building more schools, improving transport, training more Drs or increasing pensions

An economy in recession shows declining business activity, often people lose their jobs. They may be unable to pay back their loans and even banks may go out of business. People have less money to spend and start saving more in case they become unemployed. As people spend less, demand for products reduces and some businesses fail leading to people losing their jobs. The government will receive less money from taxation and may have to make cuts, borrow or print extra money to keep public services going.

Managing the economy is mainly done through encouraging business activity. When the economy is in recession or growing slowly, a government might support businesses by:

- Encouraging investment in new products and equipment.
- Creating work by funding major public projects such as house building, and rail/road improvements.
- Encouraging consumer spending by cutting taxes – so giving businesses a welcome sale boost and encouraging them to employ more workers.

The Bank of England may assist the Government by cutting interest rates, this encourages business investment and consumer spending. The Bank can also encourage more lending by increasing the quantity of money in circulation. However, the government needs to make sure that the economy does not grow too quickly . Rapid growth can result in: large increases in borrowing, steep price rises and high wage growth. The can damage economic activity in the long term

Revision Summary Sheet – Finance, Economy and Money

Tables 6.8 and 6.9 indicate the planned government income and spending for 2017-18. These figures are updated annually when the Chancellor introduces the annual budget The tax year starts on April 6th each year. The UK economy is called a mixed economy: it is one of several different ways the economic system can be defined.

Table 6.8 Government planned income for 2017–18

Income tax	£175bn
National Insurance	£130bn
Excise duties	£48bn
Corporation tax	£52bn
VAT	£143bn
Business rates	£30bn
Council tax	£32bn
Other (taxes)	£80bn
Other (non-taxes)	£54bn

Source: Office for Budget Responsibility 2017–18

Table 6.9 Government planned spending for 2017–18

Social protection	£245bn
Personal and social services	£32bn
Health	£149bn
Transport	£37bn
Education	£102bn
Defence	£48bn
Industry, agriculture and employment	£23bn
Housing and environment	£36bn
Public order and safety	£34bn
Other including EU transactions	£50bn
Debt interest	£46bn

Source: Office for Budget Responsibility 2017–18

Government Income

The three largest sources are:

- Income Tax
- National Insurance
- Value Added

Other sources of government revenue include: Corporation tax and Business rates.

Government Spending

Once a government has a spending programme, it must agree how to raise the money top pay for the services it wishes to provide. It can do this through taxation or by increasing its debts.

- Welfare-related spending – areas such as personal social services, health, education and social protection account for a very large part of government spending.
- Debt interest – this relates to the interest the government pays on national debt, which has accumulated over several hundred years.

Income taken from wages each month are:

- **Pensions – pays into you pension fund for when you retire.**
- **Student Finance – money take to pay for university education and the money borrowed from Student finance.**
- **Income Tax**

Types of Tax

Capital Gains Tax – tax on the profits from selling shares, land or buildings.

Council Tax – a local tax, which helps to pay for local services, based on the value of a person's property, whether owned or rented.

Corporation Tax – tax on the profits of companies.

Excise Duty – an extra placed on items like fuel (petrol or diesel) alcohol and tobacco.

Income Tax – tax on earnings, pensions, certain benefits, savings and investments.

Inheritance tax – tax paid on the value of a person's money and property when they die.

National Insurance – contributions entitling a person to certain benefits, including a state pension.

Stamp Duty – tax paid on the purchase of a property.

VAT (Value Added Tax) – paid on the purchase of goods and services.

Business Tax – businesses pay this on the value of their premises.

Between 2010 and 2015 this was a period of austerity (covered last lesson) and governments cut public spending so that taxes could be reduced and the national debt repaid. Many people experienced a fall in their standard of living as a result e.g. extravagant purchases were not made as often (e.g. new cars), and there was a rise in people shopping in discount stores such as; Poundland, Home Bargains and B & M, and budget retailers such as ALDI and LIDL, in order to make ends meet. The Conservative/Liberal Democrat Coalition government of 2010-15 claimed that it was activing fairly as its policies required everyone to make sacrifices. It can be argued that this was partly the Coalition putting in place risk management strategies.

Table 7.1 Examples of Government actions to reduce spending

Government action from 2010	Examples
Reducing 'unnecessary' spending	Cutting child benefit for higher earners
Increasing **administrative efficiency** to give better value for money	Ensuring that the Government acts as a single customer when purchasing goods and services
Making savings on the delivery of existing services	Health and social care services began to work more closely together to avoid people needing expensive hospital care
Controlling wage costs	Limiting annual pay increases to 1% for most public sector employees

Revision Summary Sheet – Finance, Economy and Money

In a democracy, governments must remain popular with voters to remain in power. This is never easy, especially when hard choices need to be made about taxes, welfare benefits and public services, as nobody likes seeing their taxes increase or having welfare benefits/services cut.

spending relates to the services shown on page 46.

Budgeting and managing risk and how government manages decisions about the allocation of public funding

Party policy

The government uses a variety of measures to decide its spending priorities. The initial decisions will be based upon the political philosophy of the party in government and whether it is in favour of higher or lower government spending. It would have made certain commitments in its **manifesto** at the General Election, so will feel it has to deliver on its political promises.

UK economic issues

Some decisions will relate to economic factors, such as encouraging economic growth, lowering unemployment and bringing more people back into the workforce. These policies might then have an impact on welfare policy, such as the provision of childcare. Policies in relation to education might relate to improving the skills make-up of the future workforce or increasing university participation.

Long-term issues

Some issues will relate to long-term government spending, such as reviewing pension ages and entitlements and dealing with an ageing population in terms of care and health service provision.

Events when in office

Other issues will emerge once a government is in office and require almost instant decisions about government spending: for example, the Grenfell Tower fire in 2017 will lead to money having to be spent by council and social housing providers. It may also cause a long-term review of the provision of social housing throughout the UK.

Irrespective of which party or parties are in power, these issues all need to be considered. If the economy is growing it is easier for the state to spend more money and actually take a lower percentage of the nation's **Gross Domestic Product (GDP)** in taxation at the same time.

Governments have three options if they wish to increase government spending.

1. Increase taxation to generate more government income
2. Borrow additional money, thereby increasing the government debt
3. Make assumptions about economic growth which will lead to existing taxes raising more income

Problems arise when there is a crisis or economic growth stops or goes into reverse. A government is then trapped by greater demands for its services due to increased unemployment and lower spending in the economy, cutting its tax revenues. It can also be committed to maintaining the existing levels of provision which may have become more generous during the years of growth.

In 2015, the government launched an independent National Infrastructure Commission to oversee its £100 billion spending on infrastructure planning. The money will be spent by 2020 on 'vital projects', such as road, rail and flood defence improvements. The Commission will focus on three particular areas: connections between cities in the North, London's transport system, and energy. It is charged with producing a report at the beginning of each Parliament, providing recommendations for spending on infrastructure projects.

Governments need to plan up to fifty years ahead to meet the country's future needs. This is a complex process in which politicians and civil servants have to anticipate things such as:

- Changes in the UK population
- Global warming and its effect in climate, sea levels and farming.
- Changes in the availability of natural resources such as coal, oil and gas.
- Technological change.

Table 6.11 Viewpoints on service provisions

Service provision	Case study	Differing viewpoints
Welfare benefits	The overall benefit bill needs to be kept restrained and people should be encouraged back to work; it shouldn't pay to live off welfare benefits against going to work.	• The state should provide a basic income to allow those in need to live a normal life. • By cutting back on welfare payments claimants are encouraged to go out and look for work.
Health	The National Health Service needs increased funding. It has been suggested by one political party that the NHS and social care be funded through a separate tax so people are aware of how much it costs and that NHS spending should be independently decided.	• The state should involve a range of providers for NHS services so they promote competition and enable the service to become more efficient. • The NHS should be funded from general taxation and it should be given additional money every year to maintain and improve services. It should remain free of charge at the point of delivery for everyone.
Elderly people	Old-age pensions are currently decided through a triple lock provision, whereby pensioners receive the higher figure of wage **inflation**, CPI (price inflation) or 2.5%. One political party has suggested that the 2.5% part of the lock be removed.	• The triple lock provides some security for the poorest and most vulnerable in society. 2.5% is the least they deserve each year. • In recent years the triple lock has protected pensioners' income; it is now time to help others in society.
Education	Each school in the country is currently funded on a formula that has not been changed for many years. The government has proposed changing the formula to treat schools more equally. Some schools will gain while others will lose out on funding.	• The system must be made fairer but within the existing budget allocation, so there will be winners and losers. • We need to invest more money in our schools to improve pupil outcomes in order to provide the skilled workforce for tomorrow.