

# The 2020 Spending Review



- This year's SR to be limited to a single year (2021–22)
- On balance, a sensible decision in the circumstances
  - Too many uncertainties to set credible cash spending plans three or four years into the future
  - Not without downsides: lack of certainty inherent in a one-year settlement can impede public service leaders' ability to plan
  - We expect some areas to receive multi-year settlements: NHS, schools, (some) capital budgets
- There are still plenty of important choices to be made

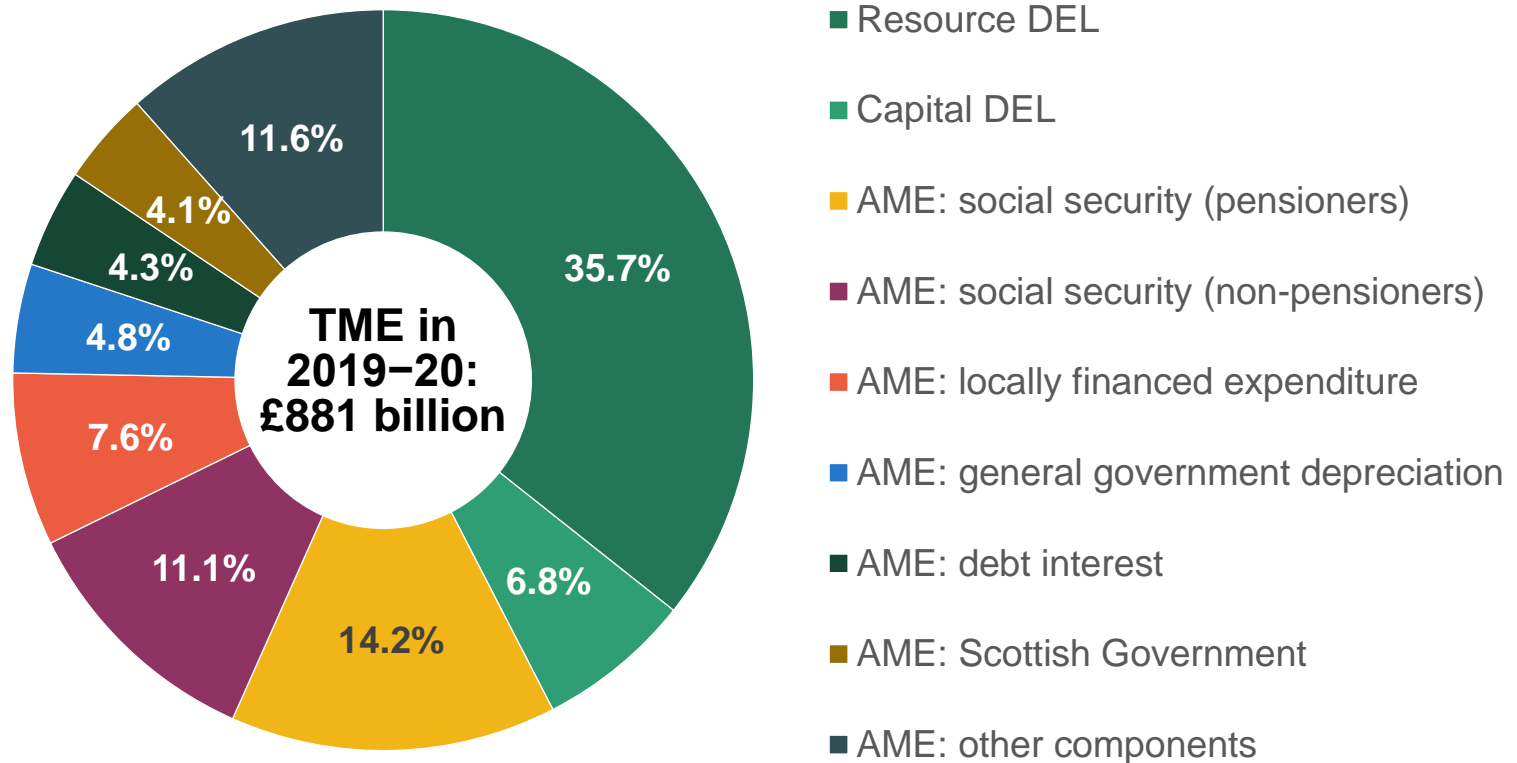
# The scope of the SR



- Spending Review expected to cover only departmental budgets
  - ‘Departmental Expenditure Limits’, or DEL

# The scope of the SR

## Components of Total Managed Expenditure (TME) in 2019–20

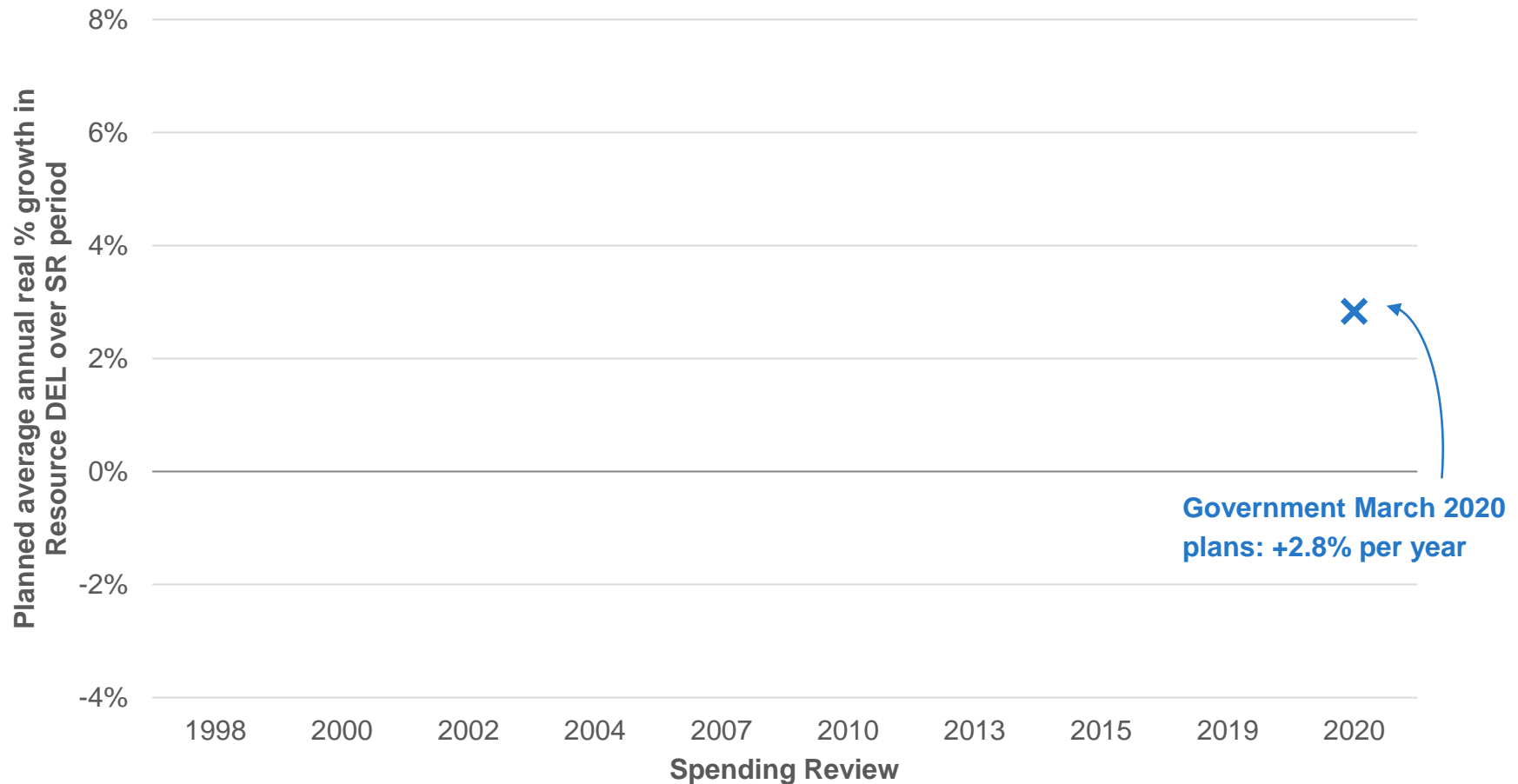


Notes and sources: see Figure 6.1 of IFS Green Budget 2020.

# The scope of the SR

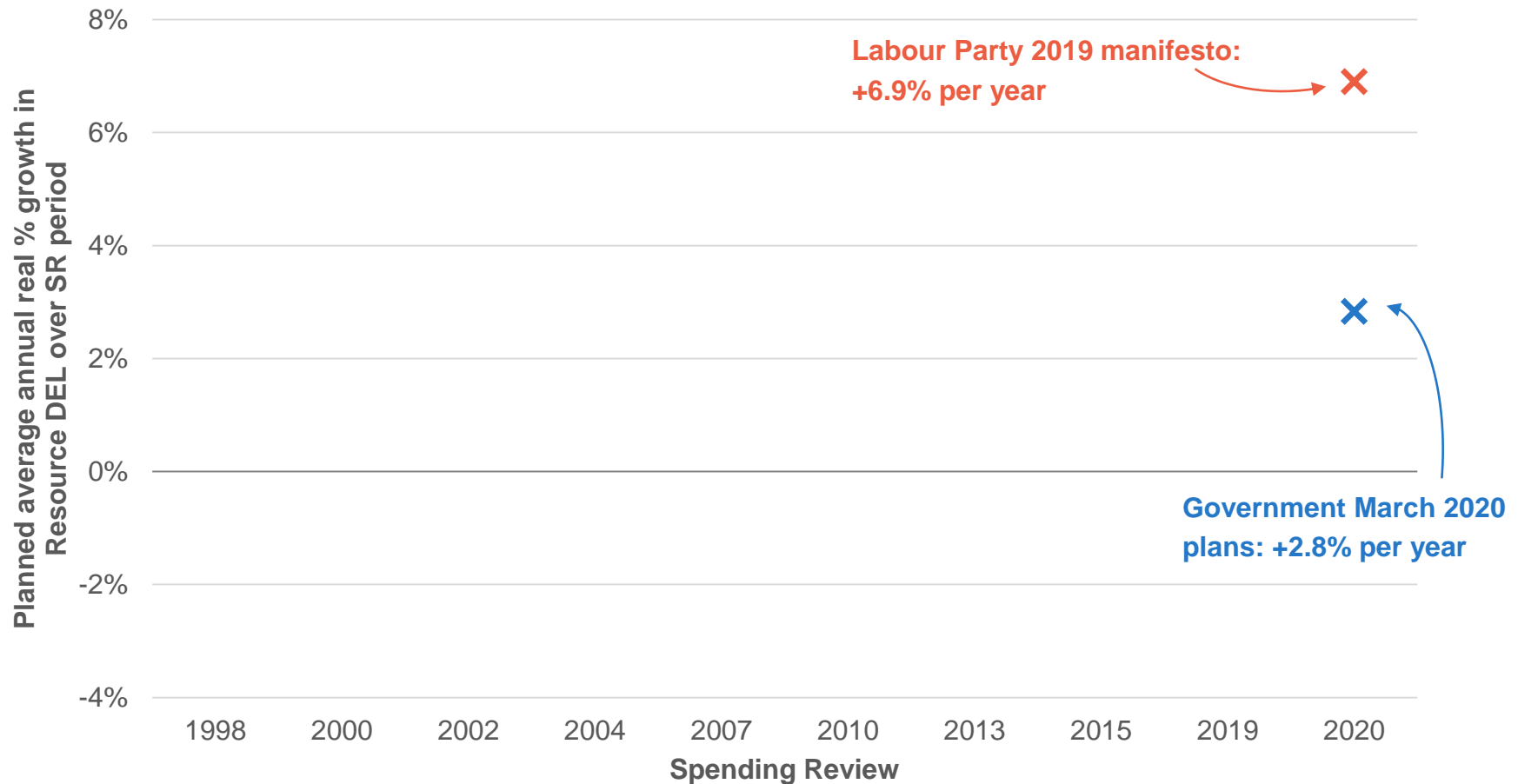
- This Spending Review expected to cover only departmental budgets
  - ‘Departmental Expenditure Limits’, or DEL
  - ~42% of total government spending
- Not expected to cover social security spending
  - But decisions on (e.g.) whether to extend £1,000 increase in standard allowance for Universal Credit could be made alongside
- Most COVID-19 programmes (e.g. the furlough scheme) are not within the scope of the Spending Review

# Starting point: March plans for day-to-day spending



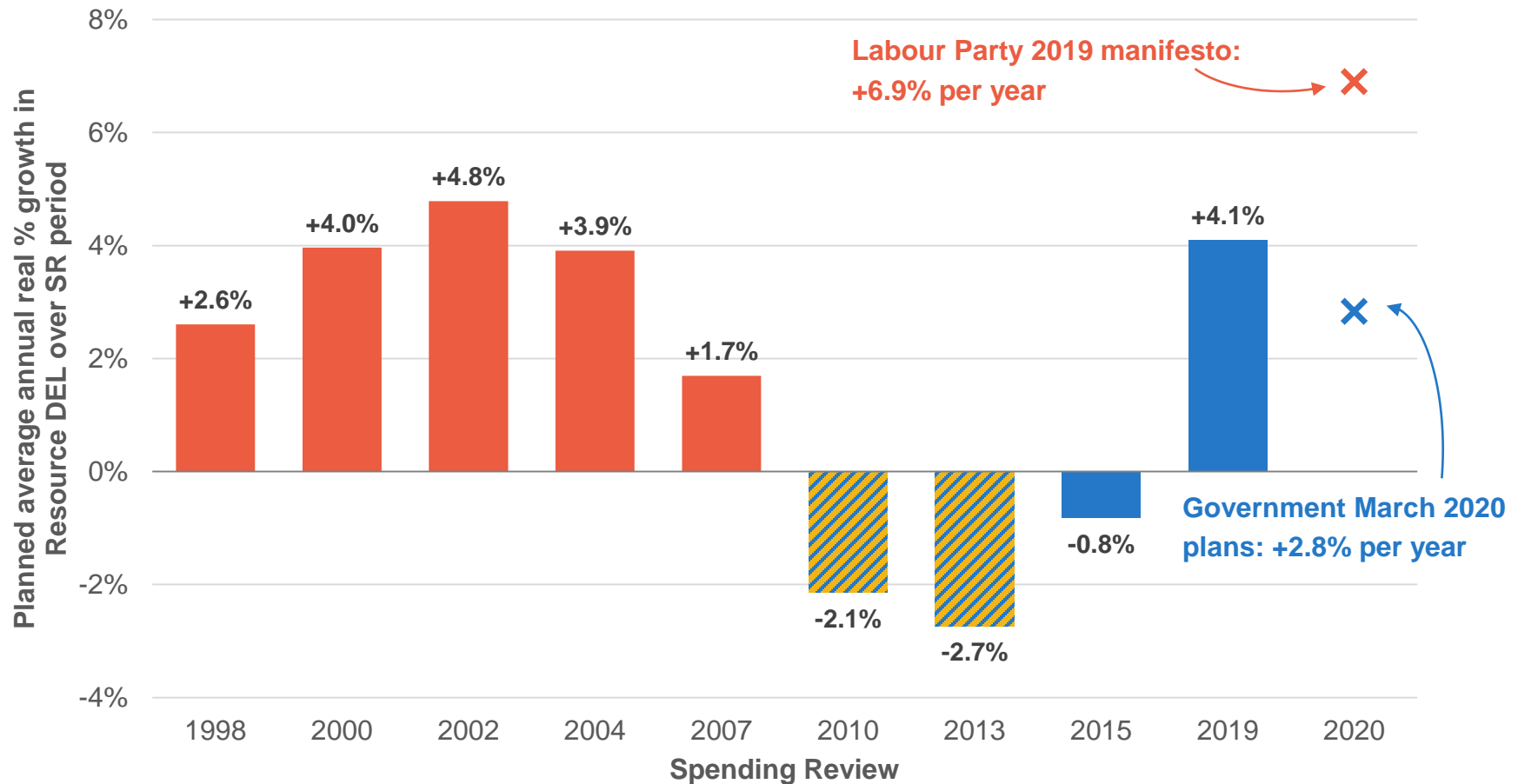
Notes and sources: see Figure 6.13 of IFS Green Budget 2020.

# Starting point: March plans for day-to-day spending



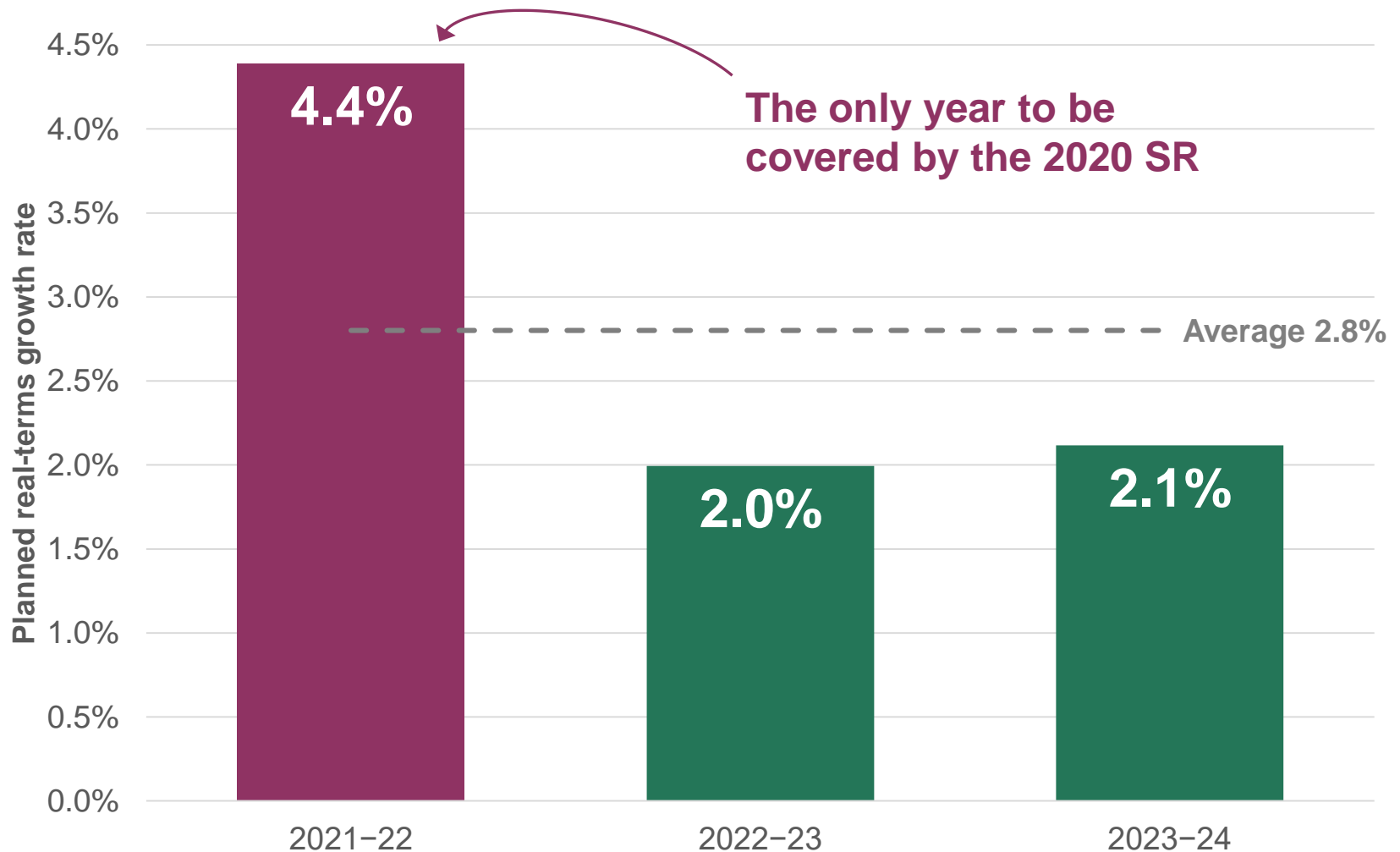
Notes and sources: see Figure 6.13 of IFS Green Budget 2020.

# Starting point: March plans for day-to-day spending



Notes and sources: see Figure 6.13 of IFS Green Budget 2020.

# March plans were front-loaded



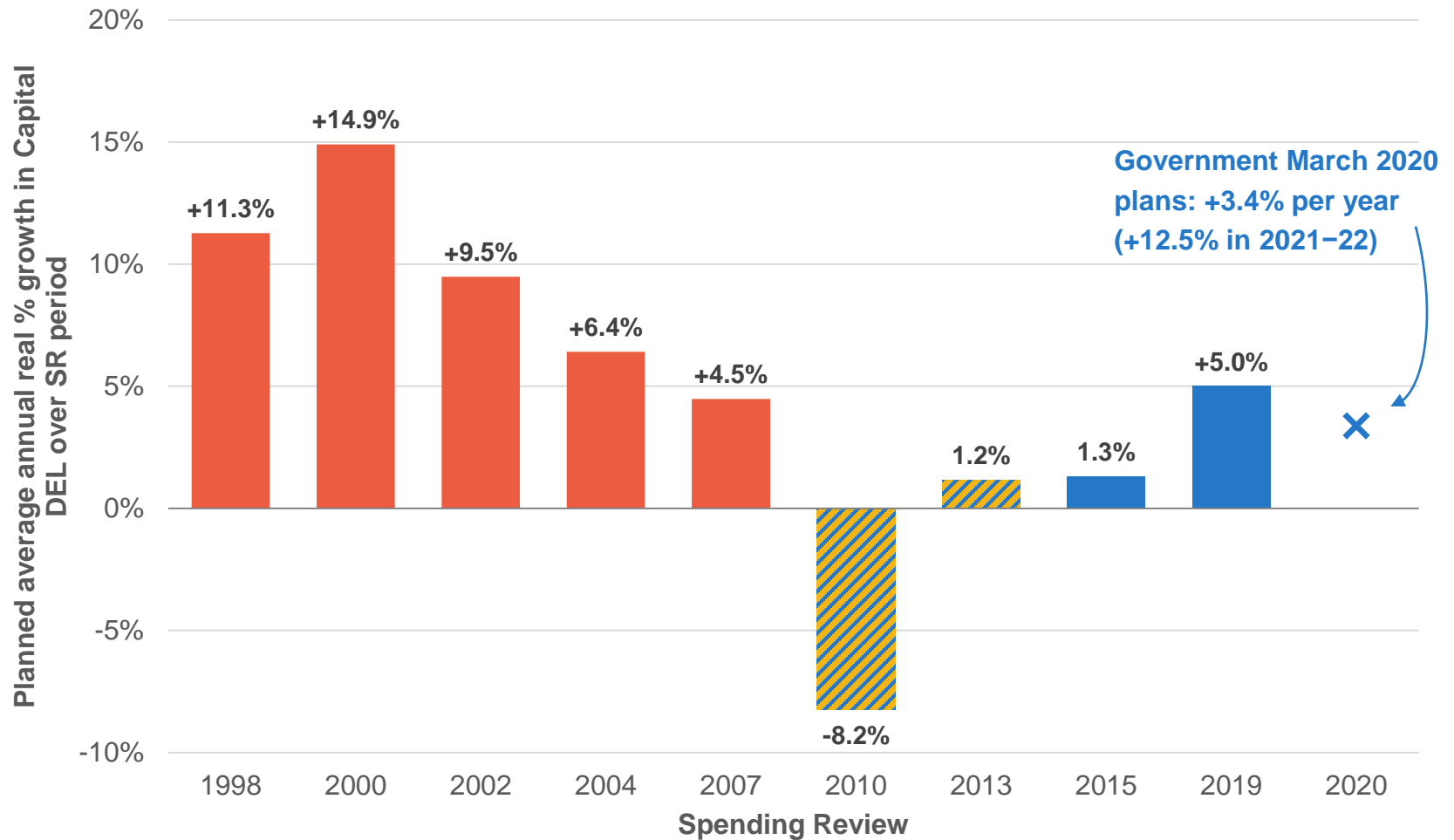


# A lot has changed since March

- March plans for day-to-day spending are now obsolete
  - Extra COVID spending: how much needs to continue?
    - Departments allocated >£70 billion for day-to-day public services as part of the response to the virus
    - Some funding may need to persist to enable ‘catch up’
  - Change in economic outlook (inflation, growth, tax revenues)
    - Lower inflation forecast: March cash spending plans now imply 6.5% real-terms growth next year (up from 4.4%)
- Extremely difficult to set meaningful cash spending limits at this time

# What about capital spending?

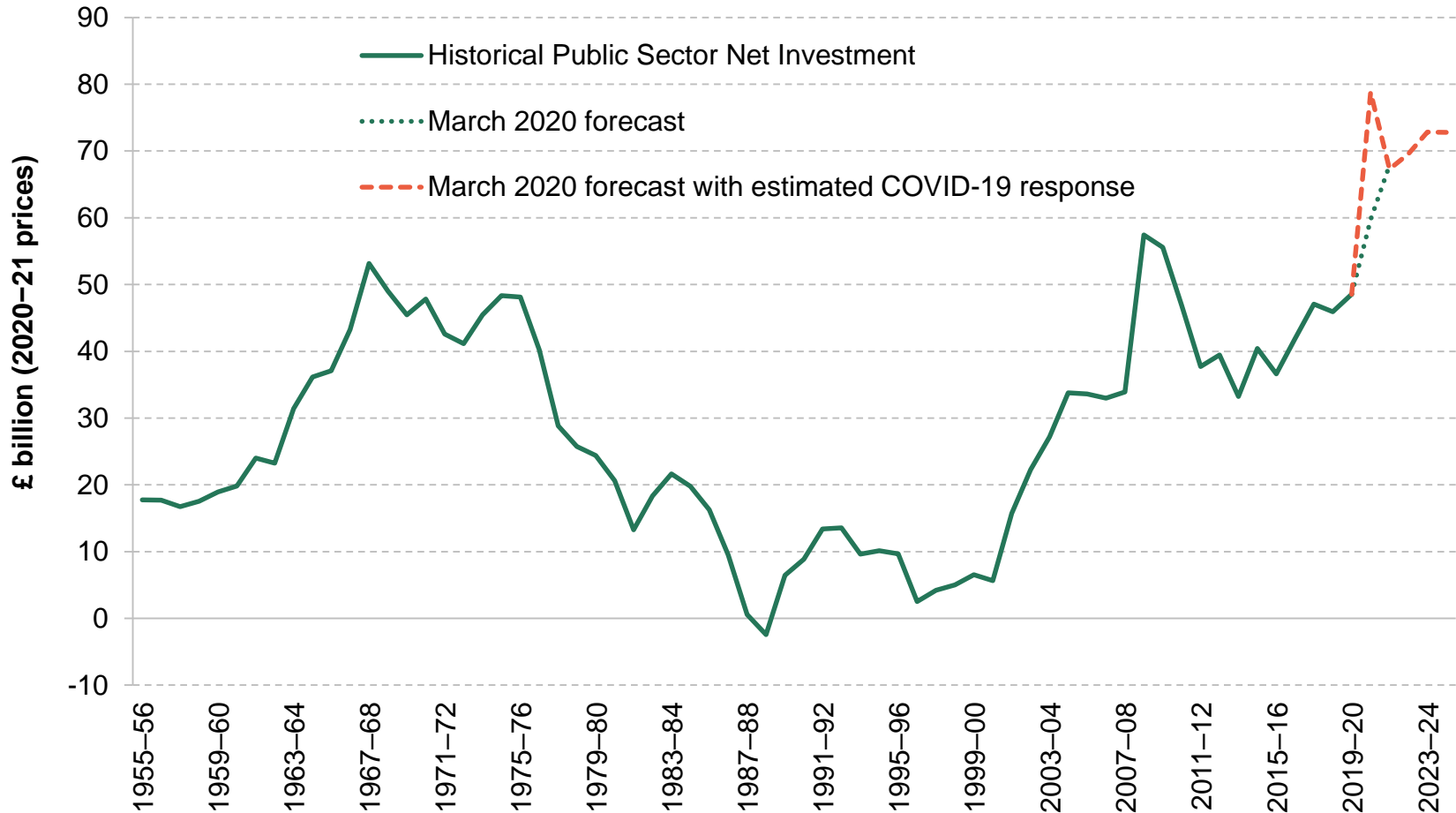
## Departmental capital budgets



Notes and sources: see Figure 6.18 of IFS Green Budget 2020.

# What about capital spending?

## Public sector net investment



Notes and sources: see Figure 6.19 of IFS Green Budget 2020.

# SR 2020: what do we already know?



- Some public services already have multi-year settlements
  - NHS England day-to-day budget exists up to 2023–24
  - English schools budget exists up to 2022–23
  - **Together:** >50% of day-to-day public service spending
    - Path for ½ of day-to-day spending (largely) pre-determined
    - Existing plans should be seen as a lower bound
- Commitments elsewhere: police, defence, overseas aid
- Big promises on investment and infrastructure

## 1. The overall generosity of spending plans

- March plans: 4.4% real growth in RDEL and 12.5% real growth in CDEL between 2020–21 and 2021–22
  - In cash terms: £361bn of RDEL, £89bn of CDEL in 2021–22
- More or less generous?
- What does it mean for ‘unprotected’ areas?
  - Local Government, Justice, Further Education, etc.

## 2. ‘Core’ budgets vs. COVID-related spending

- One option: allocate departments a budget for their ‘core’ services & build in a separate ‘COVID reserve’
- How big is the ‘reserve’? Where does funding for ‘catch up’ fall?

## 3. Capital spending

- Spending brought forward to aid recovery and “build back better”?
- Possible publication of National Infrastructure Strategy, review of the Treasury’s Green Book, R&D place strategy

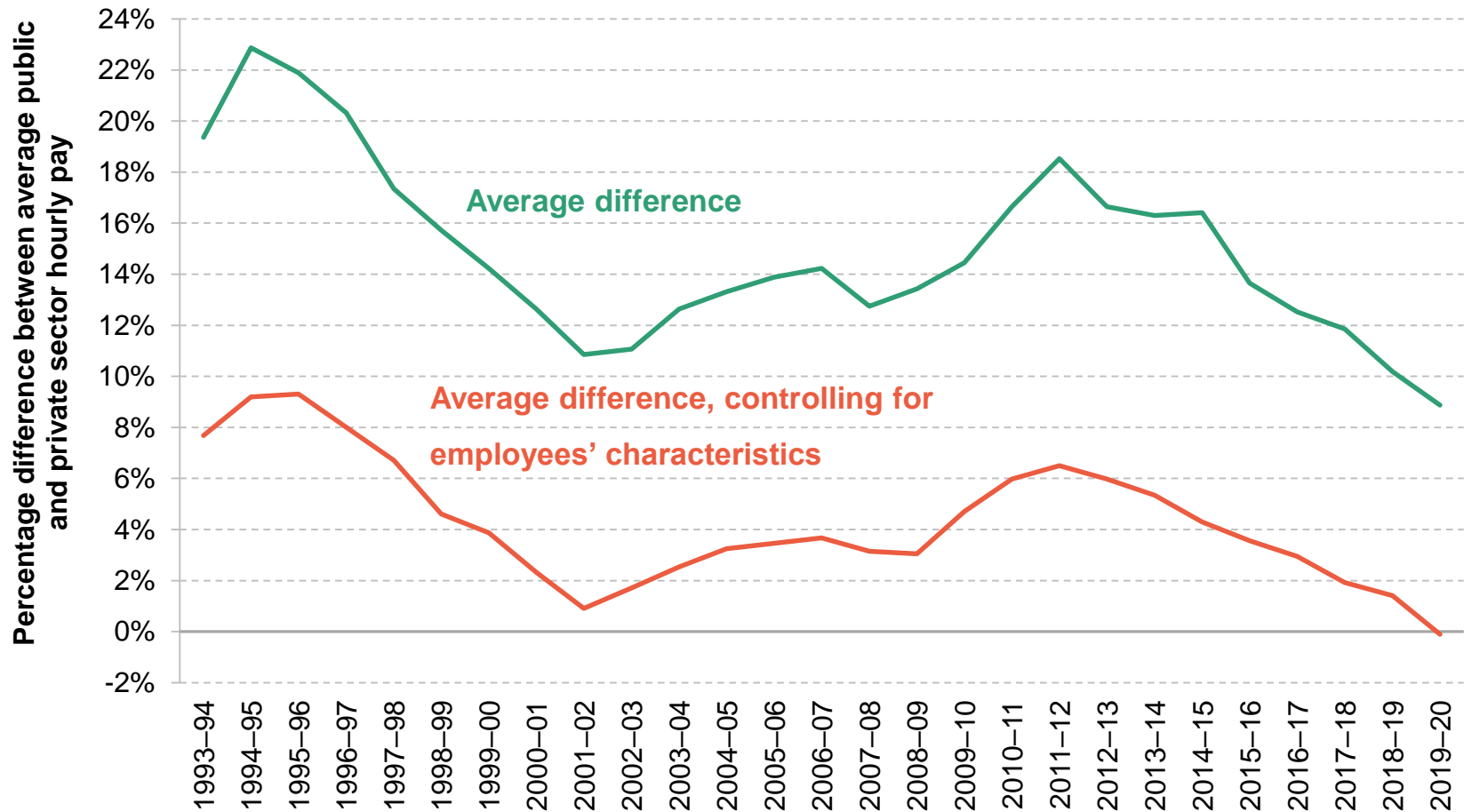
## 4. Brexit

- ~£8bn spent over previous 5 years on Brexit preparation
  - 54% of this done by Home Office, DEFRA and HMRC
  - How much funding for (e.g.) new customs arrangements?
- Replacements for existing EU spending in the UK/on our behalf?
  - Farm support, research grants to UK universities, regional funds, aid spending

## 5. Public sector pay

- Prior to pandemic: public sector pay below its 2010 level and at its lowest point relative to private sector pay in decades

# Difference between average public and private sector pay



Notes and sources: see Figure 6.8 of IFS Green Budget 2020.



## 5. Public sector pay

- Prior to pandemic: public sector pay below its 2010 level and at its lowest point relative to private sector pay in decades
- Public sector earnings expected to outperform private sector during the COVID-induced recession
  - But not by enough to reverse the last decade
- *“We must exercise restraint in future public sector pay awards”*
  - Return to a public sector pay cap?

# Beyond next year

- Government should hold a ‘comprehensive’ multi-year Review as soon as practicably possible
- Many important issues to be addressed, including:
  - Increasing demands on public services + gloomy economic outlook  
→ Bigger state? Higher taxes?
  - Related: pressures from an ageing population
  - Big reviews expected: defence, 0.7% aid target, social care funding
  - Workforce challenges
  - The role of technology and digital in public service delivery
  - Getting to net zero greenhouse gas emissions
  - ...and many more

# Final thoughts

- The decision to have a 1-year Spending Review is a sensible one in the circumstances
- Decisions over large chunks of spending (i.e. English schools and NHS) have already been made
  - But many important choices remain
    - Particularly around capital spending and public sector pay
- Once (the worst of) COVID-19 is behind us, there are many long-term challenges in need of attention

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