The 2020 Spending Review

- This year’s SR to be a 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
Components of Total Managed Expenditure (TME) in 2019–20

- Resource DEL
- Capital DEL
- AME: social security (pensioners)
- AME: social security (non-pensioners)
- AME: locally financed expenditure
- AME: general government depreciation
- AME: debt interest
- AME: Scottish Government
- AME: other components

TME in 2019–20: £881 billion

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

Labour Party 2019 manifesto: +6.9% per year

Government March 2020 plans: +2.8% per year

Notes and sources: see Figure 6.13 of IFS Green Budget 2020.
Starting point: March plans for day-to-day spending

The 2020 Spending Review

Notes and sources: see Figure 6.13 of IFS Green Budget 2020.
March plans were front-loaded

The only year to be covered by the 2020 SR

Planned real-terms growth rate

- 2021–22: 4.4%
- 2022–23: 2.0%
- 2023–24: 2.1%

Average 2.8%
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

Planned average annual real % growth in Capital DEL over SR period


-10% -5% 0% 5% 10% 15% 20%

+11.3% +14.9% +9.5% +6.4% +4.5% -8.2% 1.2% 1.3% +5.0%

Government March 2020 plans: +3.4% per year (+12.5% in 2021–22)

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.
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?
SR 2020: what to look out for

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
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.