

November 2020 Spending Review

Overview

Today the Chancellor of the Exchequer, Rishi Sunak, delivered the 2020 Spending Review alongside the Office for Budget Responsibility (OBR)'s latest economic and fiscal outlook in the House of Commons. Although the government was due to hold a full Spending Review this year, the coronavirus pandemic has meant that the Chancellor decided the review would only cover 12 months from April 2021, with a full spending review to set multi-year budgets expected in 2021.

The Chancellor began today's speech to the House of Commons by saying "Our health emergency is not yet over. And our economic emergency has only just begun". This statement was emphasised by updated forecasts and scenarios published by the OBR, which confirm the UK economy is set to shrink by 11.3 per cent this year – the largest economic fall in 300 years. Despite this, the Chancellor announced significant additional spending to support the economy this year and next in response to the coronavirus pandemic. While there were warnings of difficult choices to come, the Chancellor maintained the promise, made repeatedly by Boris Johnson, that there will be no return to austerity, with funding commitments for the NHS, schools, police and prisons.

The OBR says the government will need to find £20-£30 billion to balance the books by the time of the next election, but today's Spending Review has not attempted to answer where that might come from, whether through tax rises or further spending cuts. The only major cuts to spending announced today were a cut in the aid budget, which signified a renegeing of a Conservative manifesto commitment to spend 0.7% of gross national income on aid, and a public sector pay freeze. There was no mention of the potential impact of the UK leaving the EU with no deal in January, but the OBR has stated that this scenario would reduce GDP by a further 2% both next year and permanently.

This briefing outlines the economic overview, key announcements for health and the wider economy and NHS Providers' response.

Economic overview

The Spending Review outlines that total spending for the government's COVID-19 response amounts to over £280bn over 2020/21.

It confirms an additional £38bn to tackle the virus in 2020/21, as well as setting aside £55bn in 2020/21 for a COVID support package for public services (£21bn of which is contingency funding). Although, as the Institute for Fiscal studies has highlighted, £10bn has been removed from departments' non-COVID budgets: this is more than the Treasury has saved by freezing public sector pay (with NHS staff exempt) and cutting the foreign aid budget from 0.7% to 0.5% of GNI.

Public sector spending has increased to levels not seen since the end of the Second World War:

- Public sector net debt stands at 105% of GDP. The likely rise in public debt means that a major fiscal adjustment will be required over the coming years.
- The Office for Budget Responsibility (OBR) also estimates that the UK will run a budget deficit of £394bn by the end of 2020/21 (19 per cent of GDP).
- However, borrowing is set to fall further in 2022/23 - as economic activity recovers and virus-related spend falls – to anywhere between 1.7-6.1% of GDP in 2025-26.

The OBR has drawn up three virus scenarios that will affect the trajectory of the UK's economic recovery: an upside, central and downside. These scenarios envisage a variety of outcomes based on the effectiveness of Test and Trace, the length and severity of public health restrictions, and whether or not a vaccine is effective and widely available.

- 1 In the upside scenario, real GDP will fall by 10.6% in 2020 (the largest contraction since 1709), and economic activity will not return to the pre-virus peak until the end of 2021.
- 2 In the case of the downside scenario, real GDP may fall by 12% in 2020 and the economy won't return to its pre-crisis level until the end of 2024.
- 3 In all scenarios, the OBR predicts weak average earnings growth over the next three years. This means that inflation should remain low and return to the 2 per cent target by the end of 2024.

Department of Health and Social Care spending

Core revenue funding

- The Department of Health and Social Care's (DHSC's) core revenue budget will grow from £132.4bn in 2019/20 to £147.1bn in 2021/22 – a real terms increase of 3.5%
- This includes an NHS England budget of £136.1bn in 2021/22, with the government reaffirming its long-term commitment to increase the NHS funding to £148.5bn by 2023/24
- These figures suggest that the non-ringfenced DHSC core revenue budget, which includes money for Health Education England and Public Health England, has increased by approximately £400m
- The DHSC's administration budget is projected to remain at £2.5bn in 2021/22

| | 2019/20 | 2020/21 | 2021/22 |
|--|---------|---------|---------|
| DHSC core revenue funding (£bn) | 132.4 | 140.5 | 147.1 |
| NHS England core revenue funding (£bn) | 123.7 | 129.9 | 136.1 |

Core capital funding

- The DHSC's core capital budget will grow from £7.0bn in 2019/20 to £9.4bn in 2021/22 – a real terms increase of 13.4%
- This includes £4.2bn in 2021/22 for NHS operational capital investment to allow hospitals to refurbish and maintain their infrastructure.

| | 2019/20 | 2020/21 | 2021/22 |
|---------------------------------|---------|---------|---------|
| DHSC core capital funding (£bn) | 7.0 | 9.3 | 9.4 |

- The government also made two multi-year capital funding commitments, both of which will come out of DHSC core capital funding:
 - £3.7bn until 2024/25 to make progress on building 40 new hospitals by 2030
 - £1.7bn until 2024/25 for over 70 hospital upgrades to improve health infrastructure across the country over the long-term.

| | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|-----------------------------------|---------|---------|---------|---------|
| Hospital building programme (£bn) | 0.6 | 0.6 | 0.9 | 1.7 |
| Hospital upgrade programme (£bn) | 0.7 | 0.5 | 0.3 | 0.2 |

COVID-19 funding

- The government announced £20.3bn to help the NHS cover COVID-19 related costs in 2021/22, on top of the more than £50bn made available in 2020/21
- The 2021/22 funding includes £15bn for Test and Trace, £2.1bn to maintain and distribute stocks of personal protective equipment, and £163m for medicines and therapeutics
- It also includes £3bn for an 'NHS recovery package' and, as first announced on 22 November 2020, this will cover:
 - Around £1bn to begin tackling the elective backlog
 - Around £500m to address waiting times for mental health services
 - Around £1.5bn to help ease existing pressures in the NHS caused by COVID-19.

| | 2020/21 | 2021/22 |
|--|---------|---------|
| DHSC COVID-19 revenue funding (£bn) | 50.1 | 20.3 |
| NHS England COVID-19 revenue funding (£bn) | 9.5 | 3.0 |
| DHSC COVID-19 capital funding (£bn) | 1.8 | 0.0 |

Health specific announcements

In addition to the recovery package set out above, the Chancellor also announced: £325m for the NHS to invest in new diagnostics equipment, such as MRI and CT scanners

- £260m for Health Education England to support the training and retention of the NHS workforce
- £559m to support the modernisation of technology across the health and care system
- £165m for the eradication of mental health dormitories
- £9.4m to improve maternity safety (the government will also publish a consultation next year aimed at improving patient safety and tackling the rising costs of clinical negligence)
- On public health, the government states that 'Local authority spending through the public health grant will continue to be maintained and the government will set out further significant action that it is taking to improve the population's health in the coming months'.

Social care

The Chancellor announced that local authorities will be able to access over £1bn of spending for social care through £300m of social care grant and the ability to levy a 3 per cent adult social care precept. This funding is additional to the £1 billion social care grant announced last year which is being maintained. The government expects to provide local authorities with over £3 billion to address COVID-19 pressures, including in adult social care. In the longer term, the government states that it is committed to sustainable improvement of the adult social care system and will bring forward proposals next year. An additional £2.1 billion will be provided to local authorities through the Better Care Fund which will be pooled with the NHS to help meet adult social care needs and reduce pressures on the NHS.

Further COVID-19-related funding commitments

Since the beginning of the pandemic, the government has spent over £280bn to support the economy through the coronavirus pandemic. The Chancellor announced today an additional £38bn of support for public services for 2020-21 and £55bn for 2021-22. Within the £55bn, £21bn will be contingency funding. The government says that it 'remains committed to ensuring the NHS has the

certainty it needs to plan and will agree further funding for operationally necessary direct COVID-19 costs with the NHS next year’.

The £38bn for 2020-21 includes:

- £52bn for frontline health services to tackle the pandemic including £22 billion for the Test and Trace programme, over £15 billion for the procurement of personal protective equipment (PPE) and £2.7 billion to support the development and procurement of vaccines
- over £5.4 billion to help local authorities in England respond to the impact of COVID-19 in 2020-21, on top of £1.6 billion awarded in 2019-20, bringing the total to date to over £7 billion. Additional financial support will also be available to local authorities facing the highest ongoing restrictions. This will support local public health initiatives through the Contain Outbreak Management Fund
- £12.8 billion for the transport network. This includes an estimated £8 billion for rail passenger services in England and £4.8 billion of further support, including for buses, light rail, cycling, and Transport for London
- education funding of £1.4 billion, including funding for schools in England and supplementary support for free school meals
- £1.9 billion for DWP to deliver labour market support, including through the Kickstart Scheme
- over £270 million in 2020-21 to support the recovery of the justice system, including funding to ensure safety in prisons and courts and funding to reduce backlogs in the Crown Court caused by COVID-19.

Funding for 2021-22 includes:

- £733m in 2021-22 for the UK Vaccines Taskforce to purchase successful vaccines and £128 million for research and development (R&D) and vaccines manufacturing.
- £15bn to support enhanced testing capacity, including regular testing of NHS staff and social care workers.
- £163m to increase supplies of key medicines for treating COVID-19 patients.

Overview of other relevant announcements

Public sector pay

The Chancellor announced a pay freeze for public sector workers in 2021-22, excluding NHS workers. The NHS Pay Review Body and Doctor and Dentist’s Review Body will report as usual next spring, and the government will take their recommendations into account. The government will also provide a minimum increase of £250 to the 2.1 million public sector workers earning less than £24,000.

National living wage and personal tax thresholds

The government has accepted the recommendations of the independent Low Pay Commission (LPC), and will increase the National Living Wage (NLW) rates to apply from April 2021 including:

- increasing the rate for individuals aged 23 and over by 2.2 per cent from £8.72 to £8.91 per hour
- increasing the rate for 21 to 22-year-olds by 2.0 per cent from £8.20 to £8.36 per hour
- increasing the rate for 18 to 20-year-olds by 1.7 per cent from £6.45 to £6.56 per hour
- increasing the rate for 16 to 17-year-olds by 1.5 per cent from £4.55 to £4.62 per hour
- increasing the rate for apprentices by 3.6 per cent from £4.15 to £4.30 per hour
- increasing the daily accommodation offset rate by 2.0 per cent from £8.20 to £8.36.

The government will increase the 2021-22 Income Tax Personal Allowance and Higher Rate Threshold in line with the September CPI figure. The government will also use the September CPI figure as the basis for setting all National Insurance limits and thresholds, and the rates of Class 2 & 3 National Insurance contributions, for 2021-22.

NHS Providers view

At the start of the pandemic, the government made it clear that the NHS would get whatever it needed to deal with COVID-19. Today's announcement of an extra £3bn to start tackling planned care backlogs and build extra mental health capacity and the extra capital for the new hospital building programme is welcome. It is a sensible, pragmatic response to the challenges the NHS faces, given the overall public expenditure pressures. At this stage, it is still unclear what the total additional funding needs associated with COVID-19 might be for next year, so it is vital the Government continues to meet that commitment, this year and next. This commitment needs to take account of the needs of all parts of the NHS provider sector, including acute, ambulance, community and mental health trusts, so they can deliver high quality services for their patients and local communities.

£3bn NHS Recovery Package

A fortnight ago, we highlighted the importance of tackling the backlog in planned care in 2021/22 and supporting trusts to meet rapidly escalating mental health demand, both caused by COVID-19. We therefore strongly welcome the extra, new, £3 billion announced today for the core NHS budget. We are particularly pleased to see significant new investment in mental health given the huge extra pressures that all mental health trusts are reporting. This investment is a good start to tackling both issues, but we must be realistic that further investment will be needed.

2021/22 COVID-19 costs

The additional funding announced for NHS Test and Trace, vaccines, and Personal Protective Equipment (PPE) is welcome. However, at this stage it is difficult to know whether this will be sufficient as it is still unclear for how

much longer the pandemic will continue. As the situation develops it is important that the Government continues to be flexible in providing the funding that is needed, as it has done this financial year, providing significant extra 20/21 funding for NHS Test and Trace just last week. The NHS also still needs to agree what additional funding is needed to cover the extra 2021/22 NHS frontline costs of COVID-19 and it is vital that both direct and indirect costs are covered by the Government. It is therefore impossible to say at this point whether the NHS will have all the 21/22 funding it needs.

Capital

The increase in the NHS capital baseline is welcome, which along with the extra funding for the hospital building programme and mental health dormitory ward elimination is something we have been calling for through our 'Rebuild our NHS campaign'. However, we are concerned that this funding is not sufficient to build all the hospitals announced by the government before 2030 and there is more investment needed for mental health trusts, who have so far not received an adequate proportion of the capital spending announced to rebuild hospitals.

Workforce

The extra investment in education and training budgets is welcome and we are pleased to see this commitment to growing the NHS workforce alongside new money to deliver training to highly valued staff who have worked hard throughout the pandemic. But more is needed to ensure there is a long-term educational infrastructure in place to support the increase in applications to nursing degrees and to retain and support the development of existing staff. The lack of a multi-year settlement also means the NHS still doesn't have the fully funded long-term workforce plan it desperately needs. This remains a vital priority and a big current gap.

Social care

When he became Prime Minister, Boris Johnson committed to bringing forward a proposal on long term reform to social care and it is deeply disappointing that the Government is still no further forward in delivering on this commitment. Social care has been at the frontline of the response to the pandemic and whilst the emergency injection of money will help, we need a long-term sustainable solution here, led by the Government.

Press statement

NHS Providers press statement setting out our response to the spending review is below and also accessible [online](#).

Responding to the Spending Review for 2021/22 announced by Chancellor Rishi Sunak, NHS Providers chief executive Chris Hopson said:

"This is a constructive response to the challenges the NHS faces, given the overall public expenditure pressures.

“We welcome the extra £3 billion of new money that will start to tackle the mounting planned care backlogs, provide extra mental health capacity to help address unprecedented levels of demand and extra capital for the new hospital building programme.

“What we don’t know yet is whether it will be enough. It’s impossible to work out what the total additional funding needs associated with COVID-19 might be for next year. The government should therefore continue to honour its promise to give the NHS whatever it needs to continue to manage the impact of the pandemic.

“But fundamentally the pandemic has brought into sharp relief the question about whether as a nation, with demand increasing, we are investing enough in our health and care system to provide the quality of care and support that is needed. That question has been overlooked for too long. It’s time to recognise the true scale of the challenges we face, and the costs of dealing with them.”

Useful links

Treasury documents

[The full text of the Chancellor’s speech](#)

[Spending Round 2020: documents](#)

OBR papers

[Economic and fiscal outlook – November 2020](#)

[Overview](#)

[Executive Summary](#)