

# The Spending Review



# Overview

Given the unique nature of 2020 and the economic challenges that the nation has faced, it is still a surprise to think that this is just Rishi Sunak's third parliamentary economic set piece after the Spring Budget and the Summer Economic Update.

However, despite his track record of assured performances under pressure and reputation for headline-grabbing and snappily named schemes, today's statement was dominated by dire news and forecasts on the state of the nation's finances. With the economy expected to contract by 11.3% this year (the largest fall in output for over 300 years) and the long-term 'scarring' meaning that in 2025 the economy will still be 3% smaller than was predicted in March 2020, it is clear that – to use the Chancellor's own words – "the economic emergency has only just begun".

Due to the enormously uncertain and volatile economic picture, this year's Spending Review set out departmental budgets for just one year (2021-22) rather than the usual three or four. Given this limited timeframe, Sunak was still able to splash the cash to an extent, with confirmation of an extra £55bn of spending on public services next year.

Whilst the grim state of the economy was set out today, the equally grim solutions required have only been hinted at. The pledges to reduce the foreign aid budget to 0.5% of GDP and a freeze on public sector wage increases (although not applicable to NHS workers and those on less than the median wage) do, however, provide a taste of what is to come.



# Headline announcements

The Chancellor's speech touched on three key ways in which the Government is looking to respond to Covid-19 and invest in the UK's recovery – these focused largely on support for jobs, public services and infrastructure. With Government borrowing hitting a peacetime high at £394bn, and in the face of further economic shocks from the pandemic ahead,, headline announcements included:

- **Jobs:** With unemployment expected to peak in mid-2021 at 7.5% a new £4.2bn plan for jobs was unveiled, including £3bn for a new three year "Restart" programme aimed at getting those unemployed for over a year back into work and tweaks the apprenticeship system.
- **Public services:** an additional £38 billion was announced for public services with £18bn for the Covid response, including testing, vaccines and PPE, with another additional £3bn for NHS recovery on top of existing spending commitments.
- **Infrastructure:** £100bn to be put into national infrastructure projects, including railways, roads and £1.2bn of already committed funding for Broadband. These are to be underpinned by the new National Infrastructure Strategy and plans to create a National Infrastructure Bank.
- **Levelling-up fund:** This year's "rabbit out of the hat" announcement in the form of a £4bn "levelling-up" fund, giving money to local projects and managed by Treasury, DfT and MHCLG.



# Tech

Tech did not feature particularly prominently in today's statement, however there were several notable announcements, including the downgrading of the Government's full-fibre rollout ambitions:

- **£1.2 billion** over the next four years to subsidise the rollout of gigabit-capable broadband, as part of the Government's £5 billion commitment. The £1.2 billion funding is lower than expected given the Government's 2025 target for gigabit capable broadband.
- A commitment to work with industry to target a minimum target of **85%** gigabit capable coverage by 2025. This is a reduction from the previous target of 100%.
- Over **£260 million** to continue digital infrastructure programmes, including the Shared Rural Network for 4G coverage, Local Full Fibre Networks, and 5G Diversification.
- **£50 million** to continue the Testbeds and Trials Programmes
- **£250 million** to ensure the UK's 5G networks are not over reliant on a single supplier.
- A **£4 billion** Levelling Up Fund to invest in local infrastructure as well as a new UK infrastructure bank - headquartered in the north of England - to work with the private sector to finance major new investment projects across the UK.

# Health

Commitment to health and social care spending was of course a key priority with the spending intended to honour the Government's long-term, multi-year settlement for the NHS, which will see the Department of Health and Social Care's budget grow by **£6.6bn** next year.

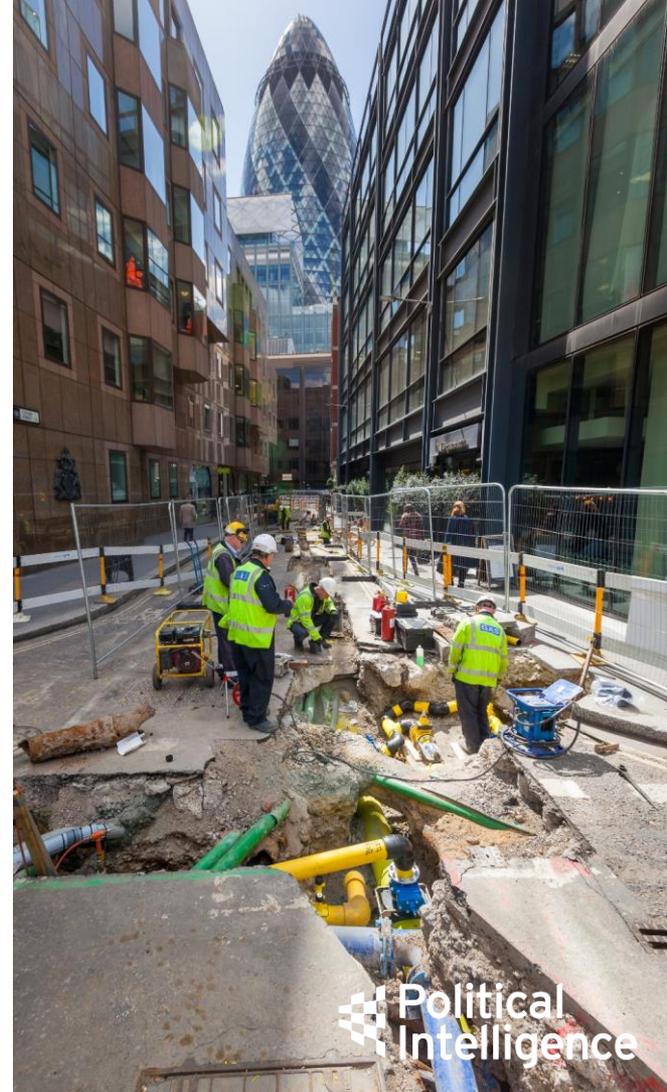
- **£3 billion** for NHS recovery, including £1bn for tackling the elective backlog and enable hospitals to cut long waits by carrying out up to one million extra checks, scans and additional operations or other procedures. The remainder will address mental health service provision, investment in the NHS workforce and help ease existing Covid pressures.
- **£18 billion** on testing, PPE and vaccines.
- **40** new hospitals and upgrading **70** more.
- **£4.2 billion** of operational investment in hospital refurbishment and infrastructure maintenance.
- **£325 million** investment in NHS diagnostics equipment, replacing aging diagnostic machines like MRI scanners.
- **£2.3 billion** increase in capital investment spending to invest in new tech and improve staff and patient experience.
- Pay rise for 1m nurses, doctors and others in the NHS.
- **£163 million** for key medicines to treat Covid-19 patients.
- **£6.6 billion** increase on last year's core health budget allowing delivery of 50,000 more nurses and 5m GP appointments.
- **>£1 billion** for social care with local authorities increasing core spending power up by 4.5%.
- **£1.3 billion** for health R&D.



# Energy

The Chancellor confirmed £12 billion of total investment to support a green industrial revolution outlined through the Ten Point Plan – supporting 250,000 jobs and saving 180 megatonnes of carbon dioxide.

- **£3 billion** of funding allocated to BEIS in this review to support Net Zero targets, which includes investments into the following:
  - **£1 billion** for Carbon Capture and Storage Infrastructure Fund
  - **£160 million** to ports and manufacturing to support the objective to quadruple offshore wind capacity
  - **£240 million** Net Zero Hydrogen Fund and **£81 million** for pioneering hydrogen heating trials
  - **£125 million** for nuclear technologies in 2021/22 – as part of **£525 million** set out in Ten Point Plan
  - **£200 million** for Net Zero Innovation Portfolio in 2021/22
  - **£475 million** to make public buildings greener, £150 million to help poorest homes become more energy efficient and £60 million to retrofit social housing
  - **£320 million** for Green Homes Grant voucher scheme
- **£3 billion** commitment on decarbonising buildings
- **£122 million** for clean heat networks, to help target of installing 600,000 heat pumps by 2028
- **£2.4 billion** in resource spending and **£15.6 billion** capital spending for BEIS – a 3.3% and 15.7% increase respectively



# Transport

Transport funding formed a key part of the Review, with both immediate and long-term commitments to transport networks, innovations and green technologies. Additionally, there were also sizeable commitments to landmark projects such as High Speed 2 and the Road Investment Strategy.

- **£12.8 billion** for 2020/21 to keep transport networks moving. This includes **£8 billion** for rail passenger services in England and **£4.8 billion** of support for buses, light rail, cycling and Transport for London
- **£22.6 billion** over four years for High Speed 2
- **£18 billion** over four years for Road Investment Strategy
- **£2 billion** to DfT to ensure continued operation of railways in 2021-22
- **£19 billion** of transport investment – including **£1.7 billion** for local roads maintenance and upgrades
- **£1.9 billion** for charging infrastructure and consumer incentives for green transport
- **£257 million** for cycling and walking in 2021/22 – part of **£2 billion** commitment to cycling
- **£81 million** of R&D funding to launch programme of investment in low/zero emission transport technologies
- **£500 million** in next four years for development of EV batteries
- **£700 million** increase in core resource funding for Department for Transport



# Opposition reaction

It fell to Shadow Chancellor Annelise Dodds to provide the opposition's reaction – a challenging task against a Chancellor widely regarded as PM-in waiting and having already committed vast sums of money as part of the Covid response.

Dodds chose to focus on value for money and competence, arguing that a public sector pay rise could have been given across the board had the Government not undertaken a "bonanza...[of]...contracts with political connections".

She also criticised the Government for not delivering on the 'levelling up' agenda and for not going far enough to incentivise green jobs, arguing that the Government's spending would only deliver "half" the jobs as Labour's plan had pledged.

As the country emerges out of its second national lockdown and back into a tier system, the Shadow Chancellor also argued that the Chancellor had said nothing about further economic support for businesses and individuals, calling for the retention of the £20 uplift in Universal Credit, amongst other things.

Dodds also accused the Chancellor of "turn[ing] his back on the world's poorest" with the planned cut in overseas aid spending. The overseas aid debate will be one to watch as some Tory backbenchers have expressed their unhappiness at going back on a manifesto promise.

