



In-depth Briefings

UK Government Spending Review, 2021-2022

November 2020

Overview

On 25th November in a statement to the House of Commons, the Chancellor Rishi Sunak unveiled the [UK Government's 2020 Spending Review](#). Since March, the Chancellor has already unveiled various mini-budgets in response to the Coronavirus pandemic.

As outlined by the OBR forecast, the economic shock of COVID-19 is predicted to result in an economic contraction of 11.3% this year and recovering by 5.5% next year. Economic output is not expected to return to pre-pandemic levels until the fourth quarter in 2022 and borrowing this year is predicted at £394bn (19% of GDP), which is the highest level of borrowing in peacetime history.

Based on these figures, the Chancellor stated that the economic emergency has only just begun. In his response, the UK Government's immediate spending priorities for the 2021-22 financial year focusses on jobs, businesses and public services.



Key statement for Wales

An extra £2.6bn will be provided to support devolved administrations, equating to a £1.3bn increase in funding to the Welsh Government. This is in addition to the 2020 budget funding for that year.

Summary of key announcements for 2021-22

- £55 billion to support the public services response to Covid-19, including the £2.6 billion for devolved administrations.

A public sector pay freeze. This will exclude over a million nurses, doctors and others working in the NHS who will still receive an increase, with a boost of at least £250 for more than two million public sector workers who earn a salary below £24,000.

- An increase in the National Living Wage to £8.91 an hour and extended to those aged 23 and over.
- A new 3-year long £2.9 billion Restart programme to provide intensive and tailored support to help more than one million people.
- The creation of a National Infrastructure Bank to support projects in England, Scotland, Wales and Northern Ireland. This aims to fill the void left by the European Investment Bank (EIB) when the UK leaves the EU. Further details are due to be announced at the next budget.
- A £4 billion Levelling Up Fund to finance local infrastructure improvement projects for England, that will 'attract up to £0.8 billion funding for Scotland, Wales and Northern Ireland in the usual way.'



- £1.1 billion to support farmers, land managers and the rural economy, and £20 million to support fisheries in devolved administrations.

Relevance to Wales

Ahead of the review, Welsh Finance Minister Rebecca Evans MS [called on the Chancellor](#) to rule out a public sector pay freeze and to deliver the funding that Wales needs to protect health and jobs with support for a fair recovery.

Funding for Welsh Government

The Welsh Government will receive £16.6bn in total in the next financial year – down from £20.3bn this year as a result of the £5bn increase in COVID-19 spending, which will decrease to £0.8bn after March 2021.

However, money for normal day-to-day spending will rise from £12.8bn to £13.5bn and infrastructure spending will remain the same in 2021/22 at £2.4bn.

Public sector pay freeze

Despite the UK Government's insistence that this review will not mark a return to austerity measures, the Chancellor has chosen to implement a public sector pay freeze (excluding doctors and nurses in the NHS), stating that this is out of fairness to private sector workers. However, those on a lower income will get a pay rise, with anyone earning less than the median wage of £24,000 in the public sector receiving a pay rise of £250.

The Royal College of Nursing has stated that nursing staff would oppose plans to freeze the pay of equally skilled professionals, as those working in social care and the community deserve a pay boost as much as their NHS colleagues.

Given that the Welsh Government is responsible for the pay and conditions of many public sector employees, this will not affect NHS and social care workers, local authority employees, fire and rescue services, teachers and some other public



employees. However, the Welsh Government will now need to consider its own pay settlements in light of this announcement.

Brexit

Welsh Government's Finance Minister asked for urgent commitments for Wales on delivering post EU-funding guarantees. However, details of this are lacking in the spending review document, which fails to confirm whether Wales will receive the same amount per year from the UK's Shared Prosperity Fund as it did from the EU. Instead, it states that the new Shared Prosperity Fund will "at least match current EU receipts, on average reaching around of £1.5 billion a year" and that "this additional funding will be delivered UK-wide, using the new financial assistance powers in the UK Internal Market Bill. Further details will be published in the New Year."

It should also be noted that concerns have been raised that the support available for agriculture and rural development following Brexit has been cut by 28%, and this could have knock-on implications for other budgets.

The spending review also fails to offer any additional budgetary flexibility to help maximise the Welsh Government's resources to respond to the evolving pandemic, which has been continuously requested by Finance Ministers and officials across the four nations of the UK.

Employment

The national living wage will rise from £8.72 to £8.91 an hour and will be extended to workers aged 23 and over from April 2021 and applies across the whole of the UK. Whilst this is welcome news to helping workers on lower incomes, the Chancellor hasn't gone as far as increasing the standard rate to £9.21 - something the Government consulted on earlier this year, even though the rate is lower than recommended by the Living Wage Foundation at £9.50.

Those who have been unemployed for a year or more will be able to access the 3 year Restart programme, enabling people to find work. The Secretary of State for



Wales Simon Hart MP said Wales as a whole would benefit from the £2.9bn Restart programme.

Levelling up

The UK Government has so far been vague on what ‘levelling up’ means, particularly in terms of what it means for Wales. The Chancellor’s announcement of £4bn worth of funding to support towns and communities with regeneration projects in England is accompanied by funding for the same purpose of £800m per the Barnett formula for Wales, Scotland and Northern Ireland.

Priority will be given to places “facing particular challenges, and areas that have received less government investment in recent years”, the chancellor said, with bidding for the first round of funding set to open in the new year.

The fund will be managed jointly by the Treasury, the Department for Transport and the Ministry of Housing, Communities and Local Government. Projects must have “real impact” and is designed to improve “the infrastructure of everyday life”. This could include funding for a new bypass, upgraded railway station, roadworks to cut traffic, more libraries, museums and galleries, or town centre improvements. However, the fact that the fund will be controlled by Westminster undermines handing power back to communities – particularly those as part of a devolved administration.

Welfare

To support those on low incomes at the start of the pandemic, the UK Government announced a £20 per week increase to Universal Credit from April 2020 to April 2021, as well as increasing Local Housing Allowance (LHA) rates.

Disappointingly, the Chancellor did not say whether Universal Credit would be extended beyond April 2021. Millions of people on Universal Credit are now facing uncertainty, not knowing whether the government will cut their income by £20 a week next April.



[Budget tables](#) show that, total government spending for the £20 increase is £-6,060m for 2020/21 and is indicated at £-10m and £+5m for 21/22 and 22/23 respectively.

The government has promised to keep housing benefit at the level in which it would cover the lowest 30 percentile of homes in any given area for the remainder of this financial year. However, according to the Office for Budget Responsibility, the government had not specified LHA rates beyond next year. Instead it has assumed that LHA would rise in line with the Consumer Price Index.

According to the watchdog, this would result in an effective freeze on LHA in real cash terms. This will mean the £1bn being spent in 2021/22 will decline to the equivalent of £840m in 2022/23 and £675m in 2023/24.

In light of rising unemployment, there is a fear that many renters and landlords will struggle with the consequence of rent arrears through no fault of their own.

Decarbonisation

A £50 million Housing Decarbonisation Fund was confirmed by the Treasury at the Spending Review as part of the UK Government's plans to allocate £3 billion on a 'Green investment package' to boost the energy efficiency of buildings and to help create jobs. The scheme was due to end in March 2021, but has been extended for another financial year.