Spending review briefing November 2020

Introduction

The spending review announcement on 25th November was a scaled back from earlier plans for a full Comprehensive Spending Review, which would have set government department spending totals for the next three years, including Barnett consequentials for the devolved administrations. As it was the government took the decision to go with a one-year spending settlement instead – and to focus on meeting the needs of government departments during the pandemic. This document provides a briefing and some commentary on the public service related announcements included in the spending review.

Pay

The Chancellor announced that there would be a one year pay freeze for public sector workers, with exceptions for all NHS staff, whose pay would be determined through the Pay Review Body process, and those earning below median pay of £24k, who would receive a flat £250 increase for the year. He also announced that the government would accept the recommendations of the Low Pay Commission, which will see a 2.2 per cent increase in the NLW, from £8.72 to £8.91 per hour.

The rationale offered for the pay freeze is the government's proposition that pay has been rising faster in the public sector than the private sector and that the pay freeze will save public sector jobs. However, this analysis takes no account of the way in which public sector pay has fallen behind during the many years of pay restraint since 2010 (see table below). It's also a very divisive measure that fails to recognise the importance of public sector pay to the wider economy and the need to recognise the hard work that people working across public services have undertaken during the pandemic.

Our members in the NHS more than deserve a rise this year for their work during the Covid crisis. This can't wait on a lengthy pay review body process. And for members in local government and schools promises of a flat rate boost have historically failed to materialise for many – with payments often left to the discretion of cash strapped councils.

The following table demonstrates the cash decline in value of 2020 wages, with a pay freeze into 2021 for indicative UNISON member occupations outside of the NHS. This is based on RPI inflation of 2.3%. The table also shows the long-term impact of pay restraint since 2009.

	Actual 2009 pay	Actual 2020 pay	2020 pay if rose by inflation	Cash decline in value	% decline in value	Cash decline in value of 2020 wage if pay freeze in 2021
Environmental Health Officer	30011	33782	41115	7333	18%	777
Higher Level Teaching Assistant	21519	24491	29481	4990	17%	563
Housing officer	25472	28672	34897	6225	18%	659
Librarian	25472	28672	34897	6225	18%	659
Social worker – experienced	30851	34278	42266	7988	19%	788
Social worker - newly qualified	25472	28672	34897	6225	18%	659
Trading standards officer	30011	33782	41115	7333	18%	777

NHS

The government will provide an additional £3 billion next year for the NHS to help deal with the fallout from the pandemic. This money is intended to help the NHS tackle the backlog of hospital procedures and to cut long waits for care, as well as addressing waiting times for mental health services and giving more people mental health support. Previous claims to be delivering 50,000 extra nurses and to building 40 new hospitals are repeated. NHS workers will be exempt from the wider partial public sector pay freeze, but such a pay rise "will need to take into account the challenging fiscal and economic context" and the government has signalled that it intends to wait until the NHS Pay Review Body has made recommendations in spring 2021 to set the pay rise.

A short-term injection of an extra £3bn for the NHS is welcome, but this money has to be stretched to cover a lot of different and equally deserving causes within the NHS: not just the massive backlog in operations and treatments that have built up through the pandemic and the rising tide of mental health problems, but also attempting to address pre-Covid shortfalls in recent funding settlements for the NHS. The failure once again to address the long term future of adult social care (combined with miserly additional funding for the sector) will continue to have a knock-on impact, as more of the elderly and vulnerable have to fall back on the NHS when local care services are cut back. Crucial to the success of our NHS is its people – and without an immediate and meaningful pay rise for <u>all</u> healthcare staff (including those who work for private contractors), the service cannot be expected to plug the many gaps in the workforce that pre-dated the pandemic. With a vaccine on the way, it is essential that those who have cared for us in our hour of need and will be responsible for immunising us against the virus are properly rewarded now for their commitment and sacrifice.   Missing the opportunity to boost resilience in the health sector with an early pay rise may cause long-term damage to ambitious government plans to clear backlogs and fill huge holes in staffing.

Local Government including social care
At the start of the COVID-19 pandemic the Secretary of State for Housing, Communities and Local Government, Robert Jenrick MP, said councils would be funded to do "whatever it takes" to support their communities. He later backtracked and suggested councils should share the burden of their lost income. The 2020 Spending Review does nothing to address the £10bn shortfall in local authority funding that is urgently needed to plug the gap in vital frontline services that has resulted from a decade of austerity – including adults and children's social care.

Whilst funding is continuing for targeted COVID-19 responses, many of these are specifically aimed at those local authorities in England which are in the highest tiers of lockdown and the funding is largely aimed at supporting the public health response. There is no recognition of the significant pressures resulting from the loss of income councils have experienced in 2020/21 and the impact that has had on the day-to-day running of public services – with only £800m of spending earmarked for 2021/22 to compensate local authorities for lost tax revenue. It should also be noted that this support is only a one-off grant and will still be counted as lost income in 2022 when the money is withdrawn.

Small amounts of grant funding have been announced as part of the Spending Review – but these are relatively miniscule when spread across local authorities who provide these services. Earlier this year the Chancellor announced £650m for tackling homelessness, the Spending Review only promises one third of that for next year. In 2014 the troubled families budget stood at £448m, the Spending Review only commits one third of that for next year.

The Government pledges £1bn of extra funding for adult social care, but the review only includes one third of that (£300m) in additional direct grant and requires councils to raise the rest themselves. This is nowhere near enough to reform social care services. It will mean more misery for those who can't access the support they need.

The vast majority of workers in the sector will also be left with next to nothing save for a small increase in the minimum wage. These are already among the lowest paid employees in the country. They've been on the Covid frontline from the start and deserve so much more. Clarification is being sought on whether the £250 for public service workers earning under 24k can be applied across the social care workforce.

Promises by the Chancellor that "core spending power for local authorities" will increase by nearly 5% will only be positively received in town halls if this is new and additional funding beyond that already provided/promised. The Government must also avoid repeating its assumption from previous years that councils will raise this money through council tax. Not content with passing the responsibility for a decade of cuts on to councils, passing on the responsibility for addressing the implications of this policy by telling councils to increase council tax is again just the Government avoiding taking the big decisions on how to pay for public services. It is a sad indictment of the Chancellors attitude to local government that councils will be less than optimistic that the local government funding settlement for 2021/22 will address the chronic failure to invest in local public services.

Finally, as if passing the blame for cuts and tax increases on to councils wasn't enough – the Government has continued to bind the hands of local authorities by refusing to lift restrictions on by how much councils can increase council tax. Whilst councils that provide adult social care can raise council tax by an additional 1% when compared to 2020/21 (a total of 3% this year) – the cap on council tax increases is particularly damning for district authorities, many of whom are already struggling with the economic fallout of COVID-19.

Devolved administrations

The Devolved administrations will receive £4.7 billion through the Barnett formula in 2021-22, including £2.6 billion related to Covid-19, on top of the combined baseline of over £60 billion.

The Scottish Government will receive £2.4 billion through the Barnett formula, with £1.1 billion of core funding and £1.3 billion in relation to Covid-19

The Welsh Government will receive £1.3 billion through the Barnett formula, with £560 million of core funding and £770 million in relation to Covid-19

The Northern Ireland Executive will receive £0.9 billion through the Barnett formula, with £380 million of core funding and £540 million in relation to Covid-19.

The devolved nations also receive £0.8bn through the new Levelling Up Fund, though as set out below, there are serious concerns about how it will work in practice and the fact that it is a real terms cut when compared with the EU funding that it replaces.

Scotland

Instead of devolving funding and power to local communities, the so called Levelling Up Fund centralises control in Whitehall and enables the Treasury to pick and choose which pet projects it will support. Shorn of rhetoric the reality of the Chancellor's statement is that the capital funding available to the Scottish Government will decrease by 5%

This lack of control means a bias towards infrastructure projects which,as we have seen in the last week with the Scottish & UK Government's pulling out of Bifab wind farm manufacturing yard in Fife – may deliver little by way of sustainable local employment. The approach being pursued by the UK Government is at odds with the Community Wealth Building approach which

Trade unions in Scotland have been advocating and the Scottish Government have said they support.

It is particularly disappointing that the Chancellor did not take this opportunity to expand that highly restricted borrowing powers available to the Scottish Government. Now more than ever there is a need to invest so that short term economic shock does not become long term damage.

Wales

In Wales there has been wide spread disappointment around the pay freeze and Welsh Government Ministers have shared UNISON's view that this is unacceptable given the sacrifices so many public sector workers have made.

One of the biggest issues for Wales is the failure to replace EU funding despite previous promises that not a penny would be lost. The headline figures about the funding settlement might look reasonable at first glance but are deceptive. Wales was a net beneficiary of EU funding because of the level of deprivation across the country. The lack of funding provision to replace much needed investment is going to hit the poorest communities worst. The pandemic has highlighted, with devastating consequences, the impact that income inequality can have, with those in deprived communities facing a greater threat from the virus than those in more affluent areas. Under this settlement, the poverty gap will increase further still. This will clearly have an impact on public services.

Northern Ireland

In Northern Ireland a one-year budget in advance of the spending review was set in March 2020 in the hope that the subsequent allocation would improve the financial picture and allow the Executive to implement a multi-year resource budget for public services in 2021. It is now unclear whether this will be possible following this spending review. The NI Finance Minister has reacted to the spending review by stating that it is disappointing and means that the Executive budget for everyday spending on public services will stand still. The Minister was clear that it does not deliver the funding needed for public services in NI. Whilst public sector pay policy is devolved to the NI Executive, the Minister has also stated that the announcement to freeze public sector pay will have implications for pay awards in NI.

Schools and FE

The spending review promises to "level up education standards" and promises "education funding of £1.4 billion". Much of this funding is for one year only – dropping by two-thirds in 2022 and leaving education providers with an uncertain funding future. The core schools budget stands unrevised from increases announced earlier this year and continues to underfund schools. £220m is provided for "free school meals" during the Easter, Summer and Winter holidays in 2021 – despite the Government recognising a grant of £170m was needed for Winter 2020 alone (leaving the programme woefully underfunded).

Capital funding of £1.5bn has been provided to help renew the buildings of Further Education colleges. However, this will be spent over six years with only £100m available in 2021/22 and does nothing to plug the shortfall in FE funding that would support the Government's ambition of levelling up by ensuring pupils can access suitable vocational training and academic courses. £291m is pledged to support core funding in Further Education – but this is only half the amount the Government is spending on central government IT projects in the Spending Review and demonstrates how undervalued the FE system is by the Chancellor.

The Government champions how the allocation of £300m for school places for children with special educational needs and disabilities is "almost four times as much as the government provided to local authorities in 2020-21" but fails to recognise the irony of that initial figure being so unbelievably small given the Education Select Committee identified that "Special educational needs and disability funding is completely inadequate. There is simply not enough money in the system to provide for the scale of demand" and that "Local authorities are expected to face a funding shortfall in excess of £1 billion by 2021." This also fails to address the nearly £500m gap in children's social care for disabled children highlighted by the Disabled Children's Partnership.

Police and justice

The review reheated the *20,000 new police officers* story by confirming that the government is putting £520m funding into policing next year to recruit 6,000 of these target officers, when actually this ambition was announced by the PM last September and this is money which was expected anyway. Whilst 6,000 new police officers are walking in the front door of police stations, there is a real risk that many police staff will be walking out the back door via redundancy, if the CSR does not properly protect existing baseline funding and staffing levels. Worryingly, the CSR calls for £120 M in efficiency savings from law enforcement over the course of next year, most of it to come from police forces in England and Wales. Cambridgeshire and Warwickshire police announced big police staff redundancies earlier this month and our intelligence is that this may just be the tip of the iceberg depending on how existing force financial deficits and the efficiency savings requirements play out. Police and Crime Commissioners will be able to increase council tax for policing by up to £15 per household next year, and this is likely to hold the key to protecting jobs and services as the government pushes more of the burden of police funding onto local taxpayers rather than the Treasury. UNISON has been campaigning to protect baseline funding in the CSR since the summer and we will continue to fight against any police staff job cuts as we go into next year.

We continue to ask the Ministry of Justice for confirmation that the spending review settlement will provide sufficient funding for the probation reunification process which will take place next June. The National Probation Service needs additional investment to manage the merger, recruit an additional 1,000 probation officers and refurbish a dilapidated estate.

Housing

The Government announced £100bn in capital investment for next year, including housing and other infrastructure projects, as part of its one-year Spending Review. This includes, the previously announced £12.2bn Affordable Homes Programme (AHP) for new housing from 2021-2026; and £7.1bn National Homebuilding Fund.

There was no “financial package” and reforms announced to protect renters who have been economically impacted by the pandemic to help them pay off rent arrears built up.

The funding for the AHP is welcome – funding which UNISON has consistently called for. However, there is no detail as to how much of the extra funding will actually go towards investing in low cost social rented homes, given that most funding is prioritised for home-ownership.

The pandemic has created a rent debt crisis with thousands of citizens unable to afford housing costs, especially in the private rented sector. Their financial security has been threatened, and in turn so has the security of their housing. Many have built up rent arrears or fallen behind mortgage payments; are more in debt and struggling to meet household bills and sustain a roof over their heads. UNISON’s survey of members shows that housing problems have worsened for them:

> 34.9% of respondents had lost income or seen their income reduced due to the economic impact of Covid-19; 10.4% have missed rent/deferred mortgage payments or have fallen into arrears; 6.5% are struggling to pay their housing costs; 9.9% are struggling to pay household bills; 12.1% are getting into debt, and are worried about losing all or some of their income; 3.2% have been threatened with – or faced - eviction and homelessness.

The pandemic has also highlighted the need for long-term funding of low-cost social rent homes to meet housing need of people including low paid key workers, homeless families, older people and those stuck in unsuitable over-crowded accommodation. The demand for this type of housing was already high before the pandemic and is likely to grow as more people impacted by Covid-19 are priced out of the housing market and can no longer afford high private rentals.

The spending review offers no solutions to these problems.

Pensions

Alongside the spending review the Government published its response to the consultation on reforming the retail prices index. The Chancellor has announced that the proposed reform of the methodology will not take place until February 2030 in order to protect holders of long-term gilts. Pensions that are inflation protected using the RPI link will likely see a decline in their pensions income when the inflation measure moves in 2030 to CPIH, which is typically lower than RPI. Although many LGPS are now CPI, there could be an impact on funds’ investment returns.