HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

25 November 2020

TO: ALL MEMBERS OF PARLIAMENT

Dear Colleague,

SPENDING REVIEW 2020: DELIVERING THE BRITISH PEOPLE'S PRIORITIES

We are writing to set out this Government's spending plans for the year ahead and how we intend to support the response to coronavirus, invest in the UK's recovery, and deliver on the priorities of the British people:

- Our immediate priority is to protect people's lives and livelihoods as we respond to coronavirus.
- But we will also deliver stronger public services – more hospitals, better schools and safer streets.
- And deliver a once-in-a-generation investment in infrastructure – creating jobs, growing the economy, and increasing pride in the places people call home.

Spending Review 2020 is set in a difficult and challenging economic context

The OBR have forecast that the economy will contract this year by 11.3 per cent – the largest fall in output for more than 300 years. Even with growth returning, our economic output is not expected to return to pre-pandemic levels until the fourth quarter of 2022. Due to long-term scarring, the economy, by 2025, is forecast to be around 3 per cent smaller than expected in the March budget. Additionally, despite the extraordinary support we have provided, unemployment is expected to rise to a peak of 7.5 per cent (2.6 million people) in the second quarter of next year.

The economic impact of coronavirus means there has been a significant increase in borrowing and debt. In the OBR's 'central' forecast, the UK is expected to borrow a total of £394 billion this year – equivalent to 19 per cent of GDP, the highest level of borrowing in our peacetime history. We are forecast to still be borrowing over £100 billion (4 per cent of GDP) even in 2025. Due to elevated borrowing levels, and a persistent current deficit, underlying debt is forecast to continue rising every year, reaching 97.5 per cent of GDP in 2025.

Over time, we will need to return the government to sustainable public finances. High as these costs are, the costs of inaction would have been much higher. But this situation is clearly is unsustainable over the medium term. We could only act in the way we have because we came into this pandemic with strong public finances. And we have a responsibility, once the economy recovers, to return to a sustainable fiscal position.

Protecting people's lives and livelihoods as we respond to coronavirus

This year, the government will spend over £280 billion on its response. Through the furlough scheme, support for the self-employed, loans, grants, tax cuts and tax deferrals, as well as extra funding for schools, local authorities, the NHS, charities, culture and sport, we are ensuring that we prioritise jobs, businesses and public services.

The IMF, OBR and Bank of England have praised the UK response. In its recent assessment of the UK's economic response to coronavirus, the IMF praised it as 'one of the best examples of coordinated action globally which has helped mitigate the damage, holding down unemployment and insolvencies'.

But this health pandemic is not over, so this Spending Review confirms an additional £55 billion for next year for departments to respond to coronavirus, including: £18 billion to fund our programmes on community testing, test and trace, PPE and vaccines; £3 billion to support NHS recovery from the impacts of coronavirus, allowing them to carry out up to 1 million checks, scans and operations, boost mental health services, invest in the workforce, and ease existing pressures; over £2 billion to keep our transport arteries open, with funding to subsidise rail and bus networks; over £3 billion to local authorities, on the frontline of supporting vulnerable people through coronavirus; £250 million to help end rough sleeping, and get people into long-term accommodation; and £2.6 billion to support the devolved administrations respond to coronavirus.

We are also doing more to build on our Plan for Jobs. Latest data shows the UK's unemployment is lower than Italy, France, Spain, Canada and the United States. But there is always more we can do, which is why we are today announcing nearly £3 billion for a new, three-year programme to help nearly 1 million people who have been unemployed for over a year, find work.

But in such a difficult context, we need to ensure fairness between the private and public sectors. In the six months to September, private sector wages fell by nearly 1 per cent – but public sector wages rose by nearly 4 per cent over the same period. And unlike those in the private sector who have lost jobs, been furloughed, and seen wages and hours cut, the public sector has not. That is why today we are targeting our resources at those who need it most by:

- Providing a pay rise to over 1 million nurses, doctors and others working in the NHS.
- Protecting jobs by pausing pay rises in the rest of the public sector.
- Guaranteeing a pay rise of at least £250 for the 2.1 million public sector workers who earn below the median UK wage of £24,000, protecting the lowest-paid.

This means that the majority of public sectors will still receive an increase in their pay next year.

We also want to do more for the lowest paid in society. That is why we are today accepting in full the recommendations of the Low Pay Commission to increase the National Living Wage by 2.2 per cent to £8.91, to extend this rate to those aged 23 or over, and to increase the National Minimum Wage as well. These increases will benefit around 2 million people – a full-time worker on the National Living Wage will see their pay rise by £345 next year, an effective increase of over £4,000 since the policy was introduced in 2016.

Delivering stronger public services – more hospitals, better schools, safer streets

Next year, total day to day departmental spending will be £540 billion. Over this year and next, core departmental spending (RDEL) will rise, in real terms, by 3.8 per cent – the fastest growth rate in 15 years. In cash terms, core day-to-day departmental budgets will increase by £14.8 billion.

We are boosting funding for the NHS. Next year, the health budget will grow by £6.6 billion, allowing us to deliver 50,000 more nurses and 50 million more GP appointments. And we are increasing capital investment by £2.3 billion to invest in new technologies to modernise patient and staff experience, as well as building 40 new hospitals, upgrading 70 more and replace the vast majority of ageing diagnostic equipment.

We are investing more in social care. Today's settlement allows Local Authorities to increase their core spending power by 4.5 per cent, which follows the largest real terms increase in core spending power for a decade last year's Spending Review. They will receive £300 million of new social care grant funding, and in line with previous years, the council tax referendum threshold will be set at 2 per cent, alongside an adult social care precept of 3 per cent. Taken together, this means an extra £1 billion to fund social care, which comes on top of the extra £1 billion social care grant we provided this year, which will be maintained into 2021-22.

We are getting on with our three-year investment plan for schools. We are reaffirming our commitment to increase the schools budget by £7.1 billion by 2022-23, compared to 2019-20. That's the biggest school funding boost in a decade and includes an uplift of £2.2 billion for next year. Every pupil in the country will see a year-on-year funding increase of at least 2 per cent. We are also funding our commitment to rebuild 500 schools over the next decade.

We are committed to boosting skills. We are committing £291 million to pay for more young people to go into further education, £1.5 billion to rebuild our colleges, and £375 million to deliver the Prime Minister's Lifetime Skills Guarantee. We are also delivering funding to extend traineeships, sector-based work academies and the national careers service, as well as improving the way the apprenticeship system works for businesses.

We are making our streets safer by cracking down on crime. Next year, funding for the criminal justice system will increase by over £1 billion. We are providing more than £400 million to recruit 6,000 new police officers – meaning we are on track to meet our manifesto pledge to recruit 20,000 more police officers by 2023. We are also delivering £275 million for the criminal justice system to bring more offenders to justice, along with a four-year, £4 billion prison building programme to provide 18,000 new prison places across England and Wales.

We are strengthening the UK's place in the world. This country has and always will be open and outward-looking, leading in solving the world's toughest problems. That is why we have announced more than £24 billion investment in defence – the biggest sustained increase in 30 years – allowing us to provide security not just for our country but around the world. We are also investing in our extensive diplomatic network, and providing more funding for new trade deals.

We also need to prioritise our domestic economic emergency. During a time when we need to prioritise jobs and public services, sticking rigidly to spending 0.7 per cent of our national income on overseas aid is difficult to justify to the British people. We will continue to meet our commitment to the world's poorest, spending the equivalent of 0.5 per cent of GNI on overseas aid in 2021, allocating £10 billion in this Spending Review. Based on the latest OECD data, this would make the UK the second highest aid donor in the G7 – higher than Italy, Japan, Canada and the US – and considerably higher than the average of the 29 countries on the OECD's development assistance committee – which in 2019, was just 0.38 per cent. Our intention is to return to 0.7 per cent when the fiscal situation allows.

Delivering our record investment plans in infrastructure to drive growth, create jobs and level up

Next year, total capital spending (CDEL) will be £100 billion – £27 billion more in real terms than last year. Our plans deliver the highest sustained levels of public sector net investment since the late 1970s.

We are today providing a number of multi-year capital settlements for roads, rail, hospitals, schools, broadband and housing. We are also publishing a National Infrastructure Strategy, outlining our long-term vision for infrastructure investment. This will go alongside a refreshed Green Book, to ensure that infrastructure projects deliver the government's key priorities to level up the country.

- A £7.1 billion National Home Building Fund, on top of our £12.2 billion Affordable Homes Programme.
- Better mobile connectivity with 4G coverage across 95 per cent of the UK by 2025.
- The biggest investment in new roads, railways, cycle lanes and over 800 zero emission buses.
- £15 billion of new funding for research and development next year.
- Delivering the PM's ten-point plan for climate change, creating 250,000 new green jobs across the UK.

To help finance our plans, we will establish a new UK infrastructure bank. Headquartered in the north of England, the Bank will work with the private sector to finance major new infrastructure projects across the United Kingdom, starting this spring.

We are also launching a new Levelling Up Fund – worth £4 billion in England, which will attract up to £800 million in the usual way in Barnett for Scotland, Wales and Northern Ireland. People want to be able to look at their towns and villages and see change in the places they call home. That is why our new fund will build the infrastructure of everyday life – such as new bypasses, upgraded railway stations, less traffic, more libraries, museums and galleries, and better high streets and town centres. Local areas in England will be able to bid directly to fund local projects of up to £20 million which must be delivered in this Parliament, and projects must command real support, including of their Member of Parliament. The Treasury, which will jointly run the fund with DfT and MHCLG, will set out more details in due course. This fund will replace previously disparate funding streams, enabling the Government to take a more effective, joined-up, place-based approach to local needs.

This Spending Review also unleashes the power of our union

This is a Spending Review for the whole of the United Kingdom. Through the Barnett formula, today's decisions increase Scottish Government funding by £2.4 billion, Welsh Government funding by £1.3 billion, and £900 million for the Northern Ireland Executive.

The Spending Review takes advantages of our departure from the EU to benefit the union. We will ramp up funding, so that total domestic UK-wide funding will at least match EU receipts, on average reaching around £1.5 billion a year. In addition, to help local areas prepare over 2021-22 for introduction of the UK Shared Prosperity Fund, we will provide additional UK funding to support our communities to pilot programmes and new approaches. We will also deliver £1.1 billion to support farmers in Scotland, Wales and Northern Ireland, £20 million to support fisheries – and we will build one freeport in each part of the UK.

We will also accelerate four City and Growth Deals in Scotland – helping Moray, Tay Cities, Borderlands and the Scottish Islands create jobs and prosperity in their areas. These add to the total of twenty City and Growth Deals across our country, demonstrating the long-term commitment of the UK Government to strengthening the union.

The Treasury is a department for the whole of the United Kingdom. In Scotland, Wales and Northern Ireland, over 1.4 million jobs have been protected under the furlough scheme, and almost £6 billion in business loans have been granted to 165,000 SMEs under Bounce Back Loans and the CBIL Scheme.

Furthermore, much of the funding we are confirming at this Spending Review is UK-wide, including the UK Shared Prosperity Fund, Gigabit broadband rollout, Shared Rural Network, R&D funding, climate change pledges on Carbon Capture and Storage and hydrogen, increased investment in UK culture and sport, and our record-breaking defence settlement.

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