
Chancellor's Financial Statement and Plans

November 25th, 2020



“Our health emergency is not yet over. And our economic emergency has only just begun”

Late November should have seen the Chancellor announce his Autumn Budget and a Comprehensive Spending Review covering the next three financial years. Like many other plans, the uncertainty created by the pandemic has put both on hold. In their place was a 'Financial Statement', primarily addressing a one-year Spending Review, with a nod to the red ink contained in the Office for Budget Responsibility's (OBR) Economic and Fiscal Outlook.

Despite speculation and a stark forecast from the Office for Budget Responsibility (OBR), Mr Sunak made no announcements about tax increases. His main focus was spending to boost the economy, support jobs and businesses, and invest in infrastructure.

The OBR reported that the UK economy is expected to shrink by 11.3% in 2020 – the largest annual fall since the Great Frost of 1709 – and total borrowing in 2020/21 will reach an estimated £394 billion. This is, of course, due to the pandemic support measures and includes additional public services spending of an extra £38 billion over the rest of 2020/21. Total spending on the response to Covid-19 this year will come to over £280 billion.

Looking ahead, Mr Sunak outlined a raft of fresh support spending, including capital investment in 2021/22 of £100 billion and a new employment support fund of £2.9 billion over three years for the long-term unemployed.

Highlights

- **No tax announcements**, although the Chancellor noted that “we have a responsibility ... to return to a sustainable fiscal position”.
- **Government borrowing projected to be £394 billion in 2020/21** before stabilising at around £100 billion from 2023/24 onwards. Total debt to remain over 100% of GDP.
- The Office for Budget Responsibility (OBR) says that **“a fiscal adjustment of £27 billion” will be needed as a minimum in the medium term.**
- **New UK Infrastructure Bank to be established** in the north of England to start work in spring 2021.
- **Public sector pay to be frozen for a year**, other than for NHS employees and those earning less than £24,000 a year.

- **National Living Wage to increase by 2.2% to £8.91 an hour** from April 2021 and the minimum age at which it applies is reduced to 23.
- **Overseas aid to be cut** from 0.7% of GDP to 0.5% in 2021.

Details

This statement was always intended to present the 2021/22 Spending Review – shortened from the originally planned three-year period – and that is what it proved to be, with a heavy emphasis on spending:

- There is an extra £38 billion of support for public services in this financial year, bringing the total spending on the Covid-19 response in 2020/21 to over £280 billion.
- In 2021/22 there will be a further £55 billion of support for the response to Covid-19 including provision of PPE, the test-and trace system and the roll out of vaccines.
- There will be £100 billion of capital spending in 2021/22 aimed at kickstarting growth and supporting jobs – £27 billion more in real terms than last year.
- As part of a new National Infrastructure Strategy, a UK infrastructure bank will be created “to catalyse private investment in projects across the UK”. The new bank will be headquartered in the north of England and will start work next spring.
- A new Levelling Up Fund was announced, worth £4 billion. It will be managed jointly between the Treasury, the Department for Transport and the Ministry of Housing, Communities and Local Government. Any local area will be able to bid directly to fund local projects.
- Core spending power for local authorities will rise by an estimated 4.5% in cash terms in 2021/22. Local authorities will be able to increase their council tax bills by 2% without needing to hold a referendum and social care authorities will be able to charge an additional 3% precept to help fund pressures in social care. There will be £254 million of additional funding to help end rough sleeping.
- The business rates multiplier will be frozen in 2021/22, saving businesses in England £575 million over the next five years. The government is also considering business rates reliefs.
- Public sector pay will be constrained in 2021/22. NHS workers will receive an increase. So too will the 2.1 million public sector workers earning less than £24,000 a year, who will be guaranteed a pay increase of at least £250. Outside these two groups there will be no pay rise.
- The National Living Wage (NLW) will increase by 19p from next April to £8.91 an hour, in line with the recommendation from the Low Pay Commission. The age at which the NLW will start to apply will be cut from 25 to 23. The National Minimum Wage rates will also increase.
- £2.9 billion will fund a new three-year UK-wide programme to provide support to help over 1 million long-term unemployed people.
- Spending on overseas aid will be cut from 0.7% of GDP to 0.5% in 2021/22. The cut will be restored” when the fiscal situation allows”.