Spending Review 2019

This briefing on the 2019 Spending Review includes a breakdown and summary of the Chancellor’s plan for government spending over the next financial year. The announcements provide insight into what a Boris Johnson government would do if they stay in government.

What is the Spending Review?

Introduced under former Prime Minister Gordon Brown, the Spending Review should be an opportunity for the Government to set out its spending plans for public services and outline the fiscal/economic agenda. Normally, it’s a chance to take a long-term view of the government’s intended spending plans over several years. It looks at the budgets of every single government department and sets out how it will distribute its overall budget, by setting the maximum amount that they can spend.

Usually, the review contains details of the state of the economy for every year and cumulatively for the election period. It is important to note that not everything in the Spending Review and Autumn Statement will happen, particularly as a lot is dependent on the state of the economy. The government uses forecasts from the Office of Budget Responsibility (OBR) to work out how much it can spend within the ‘fiscal rules’ which also cover how much can be borrowed.

2019 Spending Review:

The Chancellor, Sajid Javid, has announced his spending plans for Britain’s first year outside the European Union. This is the financial year 2020 / 2021 and his plan is based on the assumption that we will exit the European Union on October 31, 2019. Javid has claimed that his spending plan is a “new economic plan for a new economic era.” He continued to say that this plan not only marks the end of austerity but the beginning of a “decade of renewal”.

Key Spending announcements for next year:

- £2bn extra is pledged for Brexit preparations.
- Day-to-day spending will increase by £13.8bn.
- £1.7bn will be added to capital spending (for building and infrastructure).
- A 6.3 per cent increase in real-terms Home Office spending; including, £750m to fund the first year of the government’s plan to recruit 20,000 new police officers.
- A 5 per cent real-terms increase in resources budget for the Ministry of Justice as well as confirming the extra £80m for the Crown Prosecution Service (CPS).

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• Local councils will receive £1.5bn for social care. A 2 per cent Council Tax precept will be used to raise £500m.[RJ1]
• £54m of new funding to address homelessness.
• £241m for the new towns fund to help regenerate town centres’ high streets.
• School spending will increase over three years by £7.1bn.
• £400m increase in further education funding.
• £200m to transform bus services.
• Increase NHS spending by £6.2bn.
• Extra £2.2bn for defence spending- a real-terms increase of 2.6%.

Key conclusions

• This is a budget geared towards an election, picking on the issues that affected the Conservative vote in 2017 - police, schools and the NHS.
• There were no new ideas or bold investment plans announced.
• This was a short-term and short-sighted Spending Review, which after almost a decade of austerity neither reverses the cuts nor provides the necessary investments needed to address the climate breakdown, automation or an ageing population.

Does this spell the end of austerity?

The Resolution Foundation\(^1\) explains that the spending plan for the next financial year is equal to a 4.1% real-terms increase in day-to-day departmental spending. As continually repeated throughout his statement, this is the biggest increase in 15 years. Despite, it is worth noting that the Resolution Foundation also estimated that day-to-day departmental spending was cut by £32bn between 2010-11 and 2017-18. This is equal to a 10% decrease. Taking into consideration Britain’s increase in population, then the day-to-day departmental spending has declined by 15% between 2009 to 2018.

The Chancellor promised that no departmental budget will fall next year and that the majority will receive significant real-terms increases. Although, for some departments, their budgets are still half of what it was a decade ago. For instance, annual spending across the Housing and Communities, and Justice Departments will respectively remain 52% and 31% lower next year than they were in 2009. Moreover, this spending plan was for a year only, that is not to say that in the coming years we might not see further cuts, especially if we were to leave the EU without a deal.

There was no mention of an increase in welfare spending; real terms support through frozen benefits will fall 6.5% from 2016 to 2020. Research shows that half of the people affected by the benefits freeze don't have enough money to pay bills, rent or for food, and it is worse for many of those on Universal Credit\(^2\). This Spending Review does not reverse the cuts to the incomes of disabled people, which have been cut four times faster than for non-disabled people, or women who are also disproportionately hit (BME women in particular).\(^3\) Additionally, the roll out of Universal Credit continues despite all the misery it has caused. Nor has the chancellor mentioned any plans to cut the 5-week waiting time that continued >
Universal Credit claimants have to endure before receiving their first payment, which has caused so many to spiral into debt. The commitments made in the Spending Review do not come close to reversing the economic and social damage austerity has caused. There was a glaring omission from today’s statement: there was no sign of help for the 14 million people locked into poverty. Austerity is not over for the low-income families, who are struggling to make ends meet and are being pulled under by low paid jobs, high rents, and the life-line of social security has been withered away.

**Does this budget keep to the rule book?**

The extra cash the Chancellor had to splash comes from the ‘headroom’ – or contingency – set aside by the previous Chancellor to cover the costs of preparing for a no-deal Brexit. This has led to speculation that in reality the extra spending will have to come from extra borrowing, which would break the self-imposed ‘fiscal rule’ to keep borrowing below 2 per cent of GDP. We can be almost certain of this because Spending Review was based on OBR forecasts from March 2018. This was a rosier time for our economy when the OBR predicted that the Treasury would have the fiscal headroom of £14bn. This would have been sufficient to accommodate today’s increase in spending of £13.4bn. However, given the recent deterioration in the UK’s economic and fiscal outlook, and the very real possibility of a no-deal Brexit, and experts warning that we are on the brink of a recession - this headroom is likely to have shrunk considerably. Therefore, it seems Javid has found the magic money tree at last, or rather there will have to be extra borrowing to pay for his extra spending, and thus breaking the Tories own fiscal policy.

**Policing and criminal justice**

The Chancellor has pledged a 6.3% increase in real-terms Home Office spending. £750m of which is allocated to fund the first year of the government’s plan to recruit 20,000 new police officers. An extra £45m has been provided so that the recruitment of 2,000 officers can start by early next year. It is important to Theresa May’s time in the Home Office; 20,000-plus police jobs were cut. Moreover, it is stated that the starting salary of a police officer in 2010 was £25,000 whereas in 2019 is only £19,000. Also, the Chancellor announced a 5 per cent real-terms increase in resources budget for the Ministry of Justice and an extra £80m to go towards the for the Crown Prosecution Service (CPS). Furthermore, to protect religious and minority communities, the Chancellor says he will double a fund to protect places of worship.

**Local Government**

The £1.5bn awarded to local councils for social care next year “to help stabilise the system,” is more accurately understood as the following. Firstly, a grant of £1bn has been allocated to local authorities for social care for all ages. However, how much of that will go to adult social care rather than children’s services is taken at a local level and will depend on their levels of demand. Assuming it is allocated similarly to
how it was this year, we can expect half will go to adult social care. The remaining £500m could be raised by councils who have then been permitted to use the 2 per cent council tax precept for adult social care, assuming all councils use it.

Best case scenario we are looking at an increase of £1bn for adult social care, which only just meets what most in the sector said would be the bare minimum in 2020/21 to keep the system going.\(^4\) The budget is insufficient to meet the vast unmet needs, of which Age UK estimates there are 1.4 million older people with unmet needs.\(^5\) Neither will local authorities be able to increase the quality of services, or give much stability to providers or the underpaid social care workforce.

The Chancellor claims that the overall departmental spending on local authorities will be the largest increase in local government spending power since 2010, which is when the Tories first came into power. He also promised £54m of new funding to address the crisis of homelessness and rough sleeping. There will be £241m from the new towns fund to help regenerate town centres’ high streets.

### Education

School spending will increase over three years by £7.1bn. The chancellor says every secondary school will be allocated a minimum of £5,000 for every pupil next year. Every primary school will be allocated at least £3,750 per pupil, on track to reach £4,000 per pupil next year. This is to deliver on a promise from the new Prime Minister, Boris Johnson, to ensure regional equality in per-pupil spending.

The government pledged an additional £700m to support children with special educational needs. Yet, according to the National Education Union’s research, 9 out of 10 of local councils in England are unable to provide specialist educational needs and disability (SEND) support. 93 per cent of local authorities have lost out on SEND funding since 2015 because of central government’s shortfall in special needs provision of £1.7bn. Therefore, the £700m pledge is not sufficient to plug the gap. After a decade of real-term cuts, the Chancellor pledged that teachers’ starting salaries will rise to £30,000 a year by 2022/23.

There will be a £400m increase in further education funding next year. However, in recent years, 16 to 18-year-olds have faced a huge decline in education funding; the Chancellor was informed of the need for an increase of at least £760 per student, instead, he offers around £200 - less than a third of what is required.

### Health

The Chancellor says he will increase NHS spending by £6.2bn next year. Yet, before we get too carried away, an increase of 3.4 per cent is less than long-term historical growth and is far less than what is needed to both sustain and transform services, according to the Kings Fund. Furthermore, the BMA has suggested that the vast majority of this is not new funding. The

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BMA chair Dr Chaand Nagpaul said that two-thirds of it comes from money announced by Theresa May, the then Prime Minister, in 2018, which was insufficient then and is insufficient now. Most of what is left is the £2bn for the 20 hospital upgrades which will chiefly be funded through savings already made by hospital trusts. This allocation falls substantially short of the £6bn maintenance backlog or investment in GP practise premises that has built up over the years.

The Chancellor pledges a further £210m for frontline NHS staff. However, it was noticeable that there was no mention of reinstating the nurse’s bursary, even though there are approximately 100,000 vacancies across NHS. Many wards regularly fall below the staffing level many consider to be safe for patients. Furthermore, qualified nurse starting salary has not changed since 2019, remaining at £22,000. The Spending Review failed to provide any detail on exactly how the government plans to support our doctors in training, stop them leaving through burnout and future-proof our medical workforce from threats posed by Brexit.

**Transport**

The Chancellor announced infrastructure as one of his biggest priorities for spending, calling it an ‘infrastructure revolution,’ which includes public transport to high-speed broadband. He promised to “put the wheels back on the Great British bus” with £200m to transform bus services across the country, funding low-emission buses and trialling on-demand services. However, it would seem that the budget will fall short as the government already averages £250m a year in investment, and an additional £1bn to help subsidise free bus passes, and yet bus routes have shrunk as the much needed indirect funding, via cash-starved councils, has dried up. It is important to put funding pledges into context; £200m around 60 per cent of the bill TfL was handed for Boris Johnson’s controversial double-deckers alone.

**Defence**

Javid promised an extra £2.2bn for defence next year, a real-terms increase of 2.6 per cent. This ensures that defence spending not only stays above the NATO target level of 2 per cent of GDP but increases its share from the existing 2.1 per cent.

**Environment**

There was almost nothing extra in the Chancellor’s allocations to address the scale of the climate emergency that the public has very clearly demanded action on. Although the Chancellor said “the challenge of decarbonisation is real,” he gave few concrete spending commitments, and merely kicked the issue further down the road, as we wait for plans that will come “later this year”.

It is not a “new economic plan” if it does lay down a bold plan of action to respond to the crisis of our time by transforming our economy into a green one and revitalise our infrastructure while creating good quality green jobs in every corner of the UK. Instead, just a mere £30m allocated

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to towards boosting our efforts to meet the Net Zero decarbonisation target agreed in Paris. Also, a £432m in additional funds is allocated to the Department for Environment, Food and Rural Affairs to tackle climate issues.

The elephant(s) in the room

Although homelessness was mentioned, there was no mention of the lack of social housing. Since 2010, the government has cut capital investment in new homes by £6.1 billion. We have a housing crisis to tackle, with a national shortfall of 3m social homes, which pushes many people into temporary accommodation every day. Again, it appears the Chancellor is taking with one hand and giving back less with the other.

The money is short-term and cynical. It’s not about planning for our long-term future but winning an election. Not only was there considerable use of rhetoric unrelated to the Spending Review but also blame of previous Labour Government for the global financial crash and very little recognition of the precarious economic situation caused by Brexit uncertainty.

After all these years of cuts which have caused so much damage - child poverty on the rise, rough sleeping doubled, reports of children going into school starving - people will, of course, be relieved to hear the government finally say they are going to invest. But why should we trust any of these promises? Not only is the budget not backed by accurate forecasts of our economy, we know that they are capable of selling empty promises. Boris Johnson famously promised that the NHS would receive an extra £350m a week because of Brexit. Just a few weeks ago when he said proroguing parliament would be arcane. In these difficult and uncertain times, Sajid Javid’s Spending Review may well prove to be a work of pure fiction.

References