HOUSE OF LORDS

PUBLIC SERVICES COMMITTEE

House of Lords
London SW1A 0PW
Telephone: 0207 2196154
HLPUBLICSERVICES@parliament.uk

Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

11 February 2021

Dear Chancellor,

The economic context of public services provision

I am writing to you in my capacity as Chair of the House of Lords Public Services Committee. The Committee recently held an evidence session to consider how public services will be funded in future, following the historic levels of debt incurred as a result of the COVID-19 pandemic.

We heard from former Chancellors Rt Hon Lord Hammond of Runnymede and Rt Hon Lord Darling of Roulanish; James Kirkup, Director of the Social Market Foundation (SMF); Paul Johnson CBE, Director of the Institute for Fiscal Studies (IFS) and Rt Hon Lord Willetts, President of the Advisory Council and Intergenerational Centre at the Resolution Foundation.

We are concerned that the COVID-19 pandemic will have a lasting impact on the ability of central and local government to finance high-quality public services. The Government needs urgently to set out how a social care sector that has suffered greatly from coronavirus will be funded in the years to come. It should consider what public finance models can best embed the innovation in the delivery of public services that we have seen over the last 12 months. And, as it seeks to implement its 'levelling up' agenda, it should detail how it will reduce health inequalities and invest in "social infrastructure" such as housing, education and childcare.

Paying for public services

COVID-19 will have a deep and lasting impact on the economy of the United Kingdom. Lord Darling suggested that the economy would be "scarred" by the pandemic, which would have a longer-lasting effect than the financial crisis. The economy has been suppressed for much longer than it was then.

Our witnesses told us that the funding of public services would depend in large part on the fiscal response to the pandemic. The "taps of public expenditure" might be "shut…down", reported Lord Hammond, but this did not necessarily mean that tax rises would follow.

1. ***What will the Government do in the coming years to ensure sufficient funding for high-quality public services?***

Paying for social care

The evidence that we heard suggested that COVID-19 had exposed deep systemic problems with social care provision. Lord Darling argued: "what we have seen over the last 12 months has shown us that our social care system is simply not working". The solution, he felt, was to "properly fund" the sector. This meant that the state would have to play a large part in funding social care, through taxation.

Lord Hammond contended:

"The state can most usefully intervene by creating a system that allows people who have capital, and who can and should be expected to contribute to their care, if they need it, to contribute in an orderly way. A state-backed insurance product … could allow people to protect their capital in exchange for sacrificing part of it as a deferred premium."

While "there are many ways this can be done", Lord Hammond said "it cannot be the state alone. It is going to have to be a partnership between the state and private citizens who … have capital assets."

2. ***How, if at all, has the COVID-19 pandemic affected the Government's view of how social care will need to be funded in the future?***

Embedding innovation

In the Committee's first report, published in November last year, we called on the Government to embed the significant innovations in the delivery of public services that the pandemic had encouraged.

Lord Hammond underlined how in the aftermath of the financial crisis, when public services were financially constrained, service providers became more efficient. The same pattern was repeated during the COVID-19 pandemic. This was particularly the case at the local level: Lord Hammond suggested that central Government politicians were more cautious about being bold and experimenting with "radical options", whereas local authorities had "no choice" but to innovate.

The 'Treasury Green Book', its guidance on central Government appraisal and evaluation, contains only one sentence on innovation in the "provision of services" (p.102).

3. ***How will future Treasury spending decisions encourage providers of public services to maintain the innovations that many have developed since the beginning of the COVID-19 pandemic?***
4. ***Will the Green Book be updated in favour of funding models that stimulate innovation in public services?***

'Levelling up'

The "scarring" caused by COVID-19 will not affect everyone equally. Lord Darling reported that the spending decisions made after the financial crisis had also left significant "scarring", and the areas that fared worst then had also been the hardest hit by coronavirus. Fixing such inequalities would require increased public spending, he suggested. He said that greater spending would be particularly important in reducing the health inequalities that COVID-19 had exposed, and which our recent report discussed at length.

Our witnesses also discussed the Government's 'levelling up' agenda. Lord Hammond and Lord Darling both felt that current plans focused too much on "physical capital", and too little on "intangible capital". As it begins to "build back better", the Government should focus less on constructing new roads or bridges; instead, a "thriving and healthy community" depends more on the quality of housing, schools and health provision, Lord Darling told us. The Government should therefore concentrate more on the provision of such "social infrastructure" than on traditional infrastructure projects.

For Lord Hammond, a significant difficulty lay in attracting the private sector to invest in such intangibles: "it is much easier to get private capital to invest in physical infrastructure than in intellectual capital", he said. To overcome this hurdle, the Government might therefore "sacrifice some of [its] ambitions and aspirations for investment in physical infrastructure" and persuade "private capital to fill that gap".

'Levelling up' and the aftermath of the pandemic both offer an opportunity to analyse structural reasons for the divergent performance of different parts of the country. The Government should now consider how well power is distributed and shared across the regions. Lord Darling said that deficiencies in the ability of local authorities to finance services should also be addressed, as "local government finance provides an awful lot of things that people rely on day to day, whether it is education or other services."

James Kirkup suggested that the 'levelling up' agenda had so far neglected to focus on childcare, which represented a key "economic constraint" on parents and carers:

"It is very surprising that Government has not talked more and done more about childcare, and tried to address the need for better childcare solutions … It has not appeared to regard childcare as being part of the necessary infrastructure for recovery."

5. ***What can the Treasury do to tackle the health inequalities that the COVID-19 pandemic has exposed and exacerbated?***
6. ***What plans, if any, does the Government have to encourage private sector investment in "social infrastructure" such as housing, schools and health?***
7. ***How will central Government support local authorities to finance public services in future?***
8. ***What discussions have you had about how childcare provision relates to the 'levelling up' agenda?***

Investing in education and training

One of the policy areas on which 'levelling up' should now focus is in improving education and training provision. Lord Willetts told us that the pandemic had presented an opportunity to retrain young people who were out of work – but "the great and tragic missed opportunity of this crisis is that we had a lot of young people idle for whom, if we had been imaginative, we could have delivered extra education and training."

Young people will still need to be retrained, because there will be fewer jobs in some sectors such as retail, while others, such as social care, will require more staff. Paul Johnson said that there would be a need to focus much more on education for those who decide not to go to university – it will be important to "build on the really significant success of some of the higher-level technical apprenticeships and qualifications".

9. ***What discussions have you had about how improving education and training provision relates to the 'levelling up' agenda?***

I am copying this letter to the Chancellor of the Duchy of Lancaster and Minister for the Cabinet Office, Rt Hon Michael Gove MP; the Secretary of State for Health and Social Care, Rt Hon Matt Hancock MP; the Secretary of State for Education, Rt Hon Gavin Williamson CBE MP; the Secretary of State for Housing, Communities and Local Government, Rt Hon Robert Jenrick MP and the Chief Executive of NHS England, Sir Simon Stevens.

We look forward to receiving your response as soon as possible.

Yours sincerely,

Hilary Armstrong

Rt Hon Baroness Armstrong of Hill Top
Chair, House of Lords Public Services Committee