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

31 March 2021

The Rt Hon Baroness Armstrong of Hill Top
Chair, House of Lords Public Services Committee
House of Lords
London
SW1A 0PW

Dear Lady Armstrong,

THE ECONOMIC CONTEXT OF PUBLIC SERVICES PROVISION

Thank you for your letter of 11 February on the impact of the COVID-19 pandemic on the funding of public services. I would like to thank you for your careful consideration of these complex issues and I will address the points you have raised in turn.

What will the government do in the coming years to ensure sufficient funding for high-quality public services?

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?

Over the past two years, this government has increased departmental spending by £71 billion, an average nominal growth of 8 per cent per annum. Core departmental spending (TDEL), excluding COVID-19 spending, is now set to grow at an average of over 3 per cent in real terms over this Parliament, significantly faster than the growth of the economy. In total, plans up to and including Budget 2021 will deliver the largest real terms increase in departmental spending for any full parliament this century.

This spending has included significant investment in public services to deliver the government's priorities: to support a high quality, resilient healthcare system; to level up educational standards to provide all learners with a quality education experience; to continue tackling crime to keep people safe; and to support local authorities in their efforts to serve local communities.

In response to the COVID-19 pandemic, the government has provided over £100 billion of additional support for public services across the UK in 2020-21, including funding for frontline health services, schools and local authorities. At Spending Review 2020 (SR20) the government announced a further £55 billion of COVID-19 support in 2021-22 to ensure that frontline public services remain resilient to the pressures of the pandemic. Of this, £33.7 billion has already been allocated to key priorities including Test and Trace, support for local authorities and funding to help tackle backlogs in the NHS and courts. The Spring Budget confirmed the allocation of a further £2.5 billion in 2021-22. The government will continue to monitor the response to COVID-19 over the course of the year and further funding remains available to support public services as needed.

The government will set out plans for future years, including funding for public services beyond 2021-22, at the Spending Review later this year. The envelope for the Spending Review will be set out in due course. However, under the assumptions set out at Budget 2021, core departmental spending is set to increase by over £100 billion over this Parliament, an annual average real terms increase of over 3%, significantly faster than the growth of the economy.

The government recognises that evaluation of public services is key to ensuring the benefits from innovation are captured and acted on. Through SR20, the government has therefore placed a renewed emphasis on outcomes and high-quality evaluation, which is critical to understanding what works. This improved knowledge of what truly delivers for citizens, supported by a new Evaluation Taskforce, will inform future choices.

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?

It is crucial that individuals who rely on care are able to get the support they need throughout the COVID-19 pandemic. That is why since March 2020 we have provided local authorities access to over £4.6 billion of un-ringfenced grants, established an Infection Control Fund worth over £1.1 billion and committed to the provision of free PPE for adult social care providers until June 2021.

For 2021-22, we are providing local authorities with access to over £1 billion to fund social care. This funding is in addition to existing social care grants, including the £1 billion announced at Spending Round 2019 which is being maintained in line with the manifesto commitment. On top of this, the government expects to provide local authorities with over £3 billion to help manage the impact of COVID-19 in 2021/22 across their services, including adult social care. This funding will support local authorities to maintain care services while keeping up with rising demand and recovering from the impact of COVID-19.

In the longer term, the government is committed to sustainable improvement of the adult social care system and will bring forward proposals for reform this year.

Will the Green Book be updated in favour of funding models that stimulate innovation in public services?

The Green Book is the government's guidance on appraising proposals regarding government spending, taxation and regulations. It would not be appropriate to write specific objectives into the document itself; instead, it is intended to support officials in developing and designing options to support objectives set by the government– including public service innovation.

The Green Book Review published last year found that the culture and practice around the Green Book could be improved. The Treasury has therefore made significant changes to the Green Book. For example:

- to align the Green Book with the Public Value Framework, changes have been made to the appraisal guidance to ensure that proposals are being assessed first and foremost on how well they deliver strategic objectives; and
- business cases for all proposals will now have to set out how they will impact different places, aligning with relevant local strategies and major interventions in the area.

Through these changes and others, the Green Book will continue to support officials in developing policy options that support government objectives.

What can the Treasury do to tackle the health inequalities that the COVID-19 pandemic has exposed and exacerbated?

What discussions have you had about how childcare provision relates to the levelling up agenda? What discussions have you had about how improving education and training provision relates to the levelling up agenda?

What plans, if any, does the Government have to encourage private sector investment in "social infrastructure" such as housing, schools and health?

How will central Government support local authorities to finance public services in future?

As the government set out in its response to the Committee's recent report on public services, we agree that the success of spending decisions is measured by their impact on people's daily lives and the outcomes that this delivers. We are committed to levelling up opportunity across the UK, ensuring that everyone benefits from economic growth.

We want to spread opportunity and investment across the UK to boost jobs, wages and prospects so that people get a fair chance wherever they live. Central to this is the regeneration of towns and communities by targeting further investment at places most in need. This is why the government has launched a £4.8 billion Levelling Up Fund for infrastructure that improves everyday live as well as £1 billion for local projects to boost local economic growth. This is alongside unprecedented support for businesses, workers and local authorities in every nation and region of the UK in light of COVID-19.

We have also taken a series of wider actions to improve economic opportunity in places. In light of the link between economic and social outcomes, we anticipate this will over the long run positively impact wider social outcomes, for example health outcomes. Alongside these, the government agrees that improving provision for childcare, education and training, and encouraging investment in social infrastructure also play a key role in our levelling up agenda. The Treasury, in collaboration with other departments, has taken a range of actions on these specific areas.

Health inequalities

Together with DHSC and the NHS, the Treasury has taken a series of actions over the last year to support the public health and prevention agenda and reduce health inequalities, including further spending investment.

Obesity has a particular link to health inequalities and COVID-19, with 11 percent higher prevalence in the most deprived areas in England compared to the least deprived. The government has therefore published its strategy 'Tackling obesity: empowering adults and children to live healthier lives', setting out an overarching campaign to reduce obesity, take forward actions from the childhood obesity plan and get the nation fit and healthy, protect against COVID-19 and protect the NHS. The government has also provided an additional £100 million to support people to achieve and maintain a healthier weight. Over £70 million will be invested into weight management services – made available through the NHS and councils – to enable up to 700,000 adults have access to support that can help them lose weight (including through digital apps, weight management groups, individual coaches & specialist clinical support).

Additionally, this year the public health grant to local authorities in England will increase to £3.324 billion in 2021/22, an increase of 1% in cash terms – enabling them to invest in prevention and frontline services. SR20 also increased the value of Healthy Start Vouchers to £4.25, helping combat child food poverty and give children the best start in life.

To further tackle inequalities, the government is also considering the experiences of early years in COVID-19. The Early Years Healthy Development Review, commissioned in July 2020, is focused on the first 1001 days (from conception to age 2) and how to improve the health outcomes of babies and young children. The Review is considering early childhood experiences, the barriers that impact on early years development – including social and emotional factors – and the lessons learnt from COVID-19, and will report its vision for early years in the coming months.

Childcare provision

The government also recognises the importance of the early years sector for supporting children's development, enabling parents to work in all areas of the country and ensuring that everyone gets a fair chance wherever they live. This is key to the government's levelling up agenda.

Since 1 June 2020, early years settings have been open to children of all ages. The government will continue to support families with their childcare costs. At SR20, I announced £44 million investment in 2021-22 to increase hourly rates paid to childcare providers for the government's free childcare entitlement offers.

The government is continuing to work with the early years sector to understand how they can best be supported to ensure that sufficient safe, appropriate and affordable childcare is available for those returning to work now, and for all families who need it in the longer term.

Education and training provision

Furthermore, creating opportunities to improve the skills of people in all regions is critical to ensuring that they can succeed in their local areas and for ensuring a strong recovery from the impacts of the COVID-19 pandemic – particularly for young people who have lost out on precious learning and employment opportunities. Improving skills is central to levelling up opportunity, as differences in skill levels are a key component of differing levels of prosperity and wages across regions.

The UK has a strong foundation of advanced skills, but lags behind international comparators on technical and basic adult skills. This is why the government is:

- supporting productivity growth through high-quality skills and training by transforming Further Education via additional investment and by reforming technical education to align the post-16 technical education system with employer demand;
- introducing the Lifetime Skills Guarantee to enable lifelong learning through free fully funded Level 3 courses, rolling out employer-led skills bootcamps, and introducing the Lifelong Loan Entitlement; and
- continuing to focus on the quality of apprenticeships and taking steps to improve the apprenticeship system for employers, through enabling the transfer of unspent levy funds and allowing employers to front load apprenticeship training.

In response to COVID-19, the government has also put in place a package of immediate employment and skills support delivered through the Plan for Jobs which supports people to build the skills they need to get into work. The government has substantially expanded existing provision, providing funding to expand the number of traineeships and sectorbased work academy placements alongside further support for new apprentice hiring, which enables people to work while training.

Private sector investment in social infrastructure

Private sector investment in social infrastructure, including for housing, education, and health is a key tool in supporting our levelling up goals.

To underpin the government's long-term housing strategy, SR20 provided nearly £20 billion in multi-year capital investments, reconfirming £12.2 billion for the Affordable Homes Programme and investing an initial £7.1 billion into the National Home Building Fund (NHBF) over the next four years. This includes capital funding for land remediation, infrastructure investment and land assembly, where government will work with the private sector to unlock sites so developers can build homes. Under the NHBF, government is also providing £2.2 billion of new loan finance to support housebuilders across the country, including SMEs and those using modern methods of construction.

To further support investment in social infrastructure, the government has also consulted on amending existing permitted development rights to allow for the extension, erection or alteration of school, college, university, hospital and prison buildings by up to 25% of the existing footprint (or 250 sqm) and increase height restrictions on new buildings in scope. The government intends to legislate for these changes shortly, in line with its objectives to deliver better, faster and greener public service infrastructure.

At SR20 the government also took steps to improve social infrastructure directly, including by investing in the education estate – committing to 50 new school rebuilding projects a year over the next ten years – and via a £1.5 billion programme to improve the FE College estate to a good condition. SR20 also delivered the government's manifesto commitments to invest in NHS capital, including through multi-year commitments to make progress on building 40 new hospitals by 2030 and funding for over 70 hospital upgrades to improve health infrastructure across the country over the long term.

Support for local authorities

Local authorities play a vital role in supporting their communities, delivering public services and contributing to the wider levelling up agenda, and the government continues to support local authorities in their efforts to serve local communities. The government has provided local authorities with an estimated 4.6% increase in their Core Spending Power for 2021-22, giving them access to an additional £2.2 billion of funding to invest in public services next year. Furthermore, to help meet the costs of the COVID-19 pandemic the government has also provided local authorities with an unprecedented package of support worth over £8 billion in 2020-21, and authorities can expect to receive a further £3 billion of support in 2021-22, taking the total support committed to over £11 billion. The government will continue to work closely with local authorities to understand the impact which the pandemic has had on their service demands and revenue raising ahead of the next Spending Review.

I would like to thank the Committee for your continued interest and engagement on the future of public services, and the impacts of COVID-19.

Best wishes,

RISHI SUNAK