

Box 3.3: Departmental spending risks at the next Spending Review and beyond

The remit set for the OBR by Parliament requires us to base our forecasts on the current policy of the Government, and not to consider alternative policies. But we are also tasked with producing a central forecast and assessing risks to that forecast. One of the most significant risks to the medium-term fiscal outlook relates to the potential legacy of the pandemic for spending on public services. The huge sums allocated to fight the virus mean that departmental resource spending (RDEL) is expected to have risen by 36 per cent or £122 billion in 2020-21. However, only £56 billion (equivalent to a 15 per cent increase on pre-pandemic RDEL plans) has been added to fund virus-related activities in 2021-22 and no provision for virus-related spending has been added to pre-pandemic plans thereafter. As a result, RDEL spending rises from 14.4 to 21.2 per cent of GDP in 2020-21, but then falls back to 15.3 per cent of GDP in 2022-23. The resulting increase between 2019-20 and 2022-23 is a slightly smaller rise than the Government had planned in its pre-pandemic Budget in March 2020.

Historical experience suggests that it is easier to increase public spending during a crisis than it is to reduce it once the crisis has abated. RDEL rose from 16.3 to 18.3 per cent of GDP during the two peak years of the financial crisis in 2009-10, but fell back by only half as much, to 17.2 per cent, over the subsequent two. Overall public spending five years after the first and second world wars was respectively 11 and 9 per cent of GDP higher than it had been on the eve of those conflicts, with the tax-to-GDP ratio also significantly higher to pay for a state whose scope of activities had significantly expanded.

Given this context, this box considers the potential upward pressures that could impinge upon RDEL spending in the 2021 Spending Review and beyond. These pressures come from a combination of the direct legacy costs of the pandemic itself on public services, the backlog of non-virus-related public service activities that have been postponed as a result of the pandemic, and the wider economic disruption brought about by coronavirus. Several of these likely future pressures were discussed in the Government's Roadmap out of the pandemic.^a

The extent to which any additional spending in these areas leads to higher RDEL spending overall would depend on choices made at future Spending Reviews. The Government might, for example, choose to allocate less than it otherwise would have done to its pre-pandemic priorities given the changed circumstances. And if the Government did choose to increase overall RDEL spending to accommodate higher spending in some areas without reducing it in others, the extent to which it would represent a risk to medium-term borrowing would depend on choices about cuts to other spending and/or further tax rises.

The most direct virus-related costs that could persist longer than currently factored into the Government's plans are the **direct health costs of coronavirus**. So long as the virus continues to circulate in the UK, there could be ongoing costs from NHS Test and Trace, which have been running at several billion pounds a month so far this year. Similarly, the Government noted in the Roadmap that "*vaccinations – including revaccination... is likely to become a regular part of managing COVID-19*". There could also be greater-than-assumed medium-term implications for spending as a result of 'long Covid' cases and the consequences for mental health arising from