

The 2010 Spending Review

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At a Glance

- 490,000 jobs will be lost in the public sector by the end of the Spending Review period. There will be a cumulative £81 billion total cut in spending.
- The NHS budget in England is expected to rise every year until 2015. NHS health research spending will grow in real terms over the Spending Review.
- There will be an investment of £200 million for low-carbon technologies including offshore wind technology, as well as up to £1 billion investment into carbon capture and storage (CCS) technology.
- There will be a further £7 billion in welfare savings planned on top of £11 billion already announced at the last Budget.
- The State Pension Age will rise from 65 to 66 by 2020 - four years earlier than planned.
- Regulated rail fares will rise 3 percent above inflation.

Commentary by Razi Rahman, APCO Worldwide

The chancellor of the exchequer, George Osborne, today presented to Parliament the outcome of the Government's Spending Review and set out his approach to reducing the UK's budget deficit.

Setting the scene, Mr Osborne stated, "Today's the day when Britain steps back from the brink" and claimed the four-year plan would set the country's public services and welfare state on a sustainable footing for the long term.

Making his statement, Mr Osborne argued the scale of the cuts was necessary, but said his decisions were guided by three principles: reform, fairness and growth. He stated that although today's spending settlements were tough, public services would be protected; key investments in transport, energy and education maintained; and those with the broadest shoulders would bear the greatest burden.

In doing so he sent something of a mixed message – that these cuts were difficult, but not quite as bad as they may have been. In time the chancellor may regret not preparing the public for the full scale of their impact. Indeed in a rhetorical flourish at the end of his statement, he argued that the average cut for unprotected departments would be 19 percent, rather than the 20 percent proposed by the previous Labour Government in its March budget.

The chancellor outlined a reduction in public service headcount of 490,000. He acknowledged that some redundancies would be unavoidable, but said most of the reduction could come from posts being left unfilled as they became vacant.

The government clearly hopes private-sector employment will greatly increase, but it is clear that these changes will not be pain-free. Labour believes that the impact of today's statement will be felt in rising unemployment.

On welfare, the chancellor announced a further £7bn would be cut from the budget through changes to the Employment and Support Allowance, Housing Benefit, Council Tax Benefit and tax credits. The chancellor raced through these announcements during his speech, but within minutes of him sitting down, experts were drawing attention to the impact of these changes on the bottom quartile of the population. The Institute for Fiscal Studies (IFS) said, "The measures announced today in the Spending Review look more regressive than progressive."

One of the flashpoints in years to come looks likely to be local government – Mr Osborne today announcing that local authorities would be given increased freedoms, while his statement implies that the cash sums allocated by central government will fall by more than a quarter. Expect this to result in big cuts in local services.

In his reply, the newly appointed shadow chancellor, Alan Johnson, claimed today's package was ideologically driven, aimed at cutting the size of the state and risked "stifling the fragile recovery." Expect to hear more on these themes from both government and opposition politicians in the days to come. Strategists on either side know that the impact of these spending decisions, and how they are perceived by the public, will go a long way in determining the success or otherwise of this coalition government. Some ministers privately acknowledge that this is something of a leap in the dark. Yet they also believe that "there is no alternative" to taking such a risk.

In many ways it is far too early to judge what that impact might be. As we have seen with budget announcements over the years, it can often take days for experts and commentators to unravel all of the detail and assess the implications of a set of complex announcements. This is perhaps even more so today. We have the headline figures and some detail in the Treasury documents and in departmental press notices. But it is only when these decisions are implemented in the months and years to come that we will understand their economic and political impact.

Department of Health

- Overall NHS spending will increase by 0.4 percent in real terms over the course of the Spending Review period. This includes a 1.3 percent increase in the resource budget, and a 17 percent decrease in capital spending.
- NHS health research spending will grow in real terms over the Spending Review. In addition, £220 million of capital funding from the Department of Health has been allocated for the UK Centre for Medical Research and Innovation, subject to approval of the final business case.
- There will be an increase in the use of qualified clinical scientists as part of the Modernising Scientific Careers programme. This programme will save the NHS in excess of £250 million per year.
- There will be up to £20 billion of annual efficiency savings over the next four years, all of which will be reinvested to meet rising levels of demand and to support improvements in quality and outcomes.
- There will be an additional investment to support social care, rising to £2 billion per year by 2014-2015.
- The NHS will release up to £20 billion of annual efficiency savings over the next four years through the Quality, Innovation, Productivity and Prevention Programme (QIPP), all of which will be reinvested to meet rising levels of demand.

Department for Energy and Climate Change

- Resource spending will be reduced by 18 percent in real terms, and increase capital spending by 41 percent in real terms. The department's administration budget will be reduced by 33 percent.
- There will be an investment of £200 million for low-carbon technologies including offshore wind technology.
- There will be an increase in expenditure through existing support mechanisms that are funded through obligations on energy companies, which will lead to a total of £5.6 billion of support for renewable electricity installations.
- Up to £1 billion will be invested into CCS technology.
- The Green Investment Bank will be funded through £1 billion of Departmental Expenditure Limit (DEL) funding together with additional significant proceeds from the sale of government-owned assets.
- There will be £860 million of new support over the Spending Review period to support households and businesses investing in renewable heat measures.

- Feed-In Tariffs will be refocused on the most cost-effective technologies, saving £40 million in 2014-2015. The changes will be implemented at the first scheduled review of tariffs unless higher than expected deployment requires an early review.

Ministry of Defence

- The Strategic Defence and Security Review (SDSR) published on 19 October revealed that the defence budget will rise in cash terms and fall in real terms by 8 percent.
- There will be no cuts in funding for the operations in Afghanistan.
- There will be personnel cuts in all departments. The army will be cut by 7,000, the navy by 5,000 and the RAF by 5,000.
- The department will manage these reductions by reducing older or non-essential capabilities such as Harrier jets, Nimrod MRA4 maritime patrol aircraft and four Frigates.

Department for Work and Pensions

- Resource spending will increase by 2 percent in real terms, with a 6 percent real terms reduction in capital spending.

State Pensions

- The working age benefit system will be reformed and will be gradually replaced with the Universal Credit over the next two Parliaments.
- State Pension Age equalisation for women at 65 will be brought forward to November 2018.
- The State Pension Age will increase to 66 for both men and women from December 2018 to April 2020.
- Funding will be provided for the introduction of auto enrolment from 2012 and the establishment of the National Employment Savings Trust (NEST), to help individuals save for their retirement and encourage high quality pension provision by employers.

Benefits

- There will be a further £7 billion in welfare savings planned on top of £11 billion already announced at the last budget.
- Child benefit from families with a higher rate taxpayer will be withdrawn from January 2013.
- Household benefit payment will be capped from 2013 but all Disability Living Allowance claimants, War Widows and working families claiming working tax credits will be exempt from the cap.

- Contributory Employment and Support Allowance for those in the Work Related Activity Group will be limited to one year, saving £2 billion a year by 2014-2015.
- Spending on Council Tax Benefits will be reduced by 10 percent, saving £490 million a year from 2013-2014.
- Key benefits for older and vulnerable people will be protected, including Winter Fuel Payments, free eye tests, prescriptions and TV licences.
- The temporary increases to Cold Weather Payments will be made permanent, so that eligible households receive £25 for each seven day cold spell recorded.

Ministry of Justice

- There will be a 23 percent reduction in the resource budget and a 50 percent reduction in capital spending.
- The Ministry of Justice will issue a consultation shortly on how to distribute legal aid, saving £350m, subject to the outcome of consultation.
- £1.3 billion of capital will be made available over four years to maintain the existing prison estate and fund essential new-build projects.
- Private sector investment, as well as voluntary and public sector experience, will be used to reduce re-offending.
- Plans for a 1,500 place new-for-old prison will be deferred to the next Spending Review period, while the Government develops a sustainable and cost effective prison capacity strategy.

HM Treasury

- Resource spending will be reduced by 33 percent in real terms.
- The bank levy will be made a permanent tax.
- The Treasury will not provide any further funding for the Infrastructure Finance Unit, other than to meet its contractual obligations.

HM Revenue and Customs

- HM Revenue and Customs (HMRC) will reduce resource spending by 15 percent in real terms, and capital spending by 44 percent in real terms.
- The HMRC will initiate a joint HMRC and DWP strategy for fraud and error, which will reduce fraud and error within the tax credit system by £2 billion a year by 2014-2015.

Department for Business, Innovation and Skills

- There will be a departmental resource savings of 25 percent, comprising 40 percent savings from reform of higher education and an average 16 percent savings from other areas.
- The Further Education resource budget will be reduced from £4.3 billion to £3.2 billion by 2014-2015; spending on Adult Community Learning will be protected and there will be an increase in funding of £250 million a year by 2014-2015 on new adult apprenticeships.
- There will be reductions in BIS activities including the ending of Train to Gain and the abolishing of Regional Development Agencies in 2012.

Department for Communities and Local Government

- Overall resources will be reduced by 51 percent in real terms by 2014-2015 and its capital spending by 74 percent. There will be a 28 percent reduction in local government funding to councils.
- The ring-fencing of almost all local government revenue grants will end from April 2011.
- Tax Increment Finance powers will be introduced to enable councils to fund key projects by borrowing against future increases in locally collected business rates.
- The Department for Communities and local government will also be ending programmes including the Working Neighbourhoods Fund, Growth Area Funding and the Thames Gateway fund.

Department for Environment, Food, Rural Affairs

- Resource spending will be reduced by 29 percent and capital spending by 34 percent.
- Flood and coastal erosion risk management will be maintained, with £2 billion being spent in total over the Spending Review period.
- The Rural Development Programme for England will deliver savings of £66 million, but will remain open to all farmers in England.
- British Waterways will be abolished as a public corporation in England and Wales and a new waterways charity will be created.
- It will also stop funding seven Private Finance Initiative projects and will reform the Environment Agency's staff lease car scheme.

Department for International Development

- Resource spending will increase by 35 percent in real terms, and capital spending by 20 percent.
- The budget will rise to £11.5 billion over four years to meet the UN aid commitments.
- Aid to China and Russia will stop with a resulting reduction in administration costs.
- The Department for International Development will also be phasing out the Development Awareness Fund.

Foreign and Commonwealth Office

- The combined Foreign and Commonwealth office programme and administration budgets will drop from £1.4 billion in 2010-2011 to £1.2bn by 2014-2015 for a total real loss of 24 percent.
- There will be a reduction of costs for overseas estates. This includes looking to co-locate and rationalising the government's different operations overseas, for example moving into single premises in countries.

Department for Transport

- Resource spending will be reduced by 21 percent in real terms, and capital spending by 11 percent.
- There will be a rise in the regulated cap on rail fares by 3 percent above inflation for three years from 2012.
- £30 billion will be set aside for capital spending, including £500m for Tyne and Wear Metro and Tees Valley bus network. The Crossrail project will also go ahead in London.
- £6 billion will be spent on upgrades and capital maintenance on the London Underground network.
- The statutory entitlement for concessionary bus travel will be protected but bus subsidies paid to operators will be reduced by 20 percent and local government resource grants will be reduced by 28 percent.

Cabinet Office

- The core resource budget will be reduced by 35 percent in real terms, from £280m in 2010-2011 to £200m by 2014-2015.
- It will take on new responsibilities including electoral reform and administration, implementing cross-government efficiency and procurement reforms and supporting the Civil Society sector.
- The Cabinet Office budget will now also include resources transferred to the department to fund DirectGov and the Office of Government Commerce which would previously have been allocated as non-departmental government bodies.

Department for Culture, Media, Sport

- Overall resource spending will be reduced by 24 percent. The core DCMS capital budget will reduce by 32 percent.
- The planned Olympic budget will be maintained and £530 million will be invested to support the UK's broadband network over the Spending Review period.
- There will be 15 percent cuts in the department's core arts and sports programmes and 19 public bodies will be reformed or abolished, including the abolition of the UK Film Council and Museums, Libraries and Archives Council. Free entry to museums and galleries will be maintained.
- The BBC TV licence fee will be frozen until 2016-2017 and will fund BBC World Service, BBC Monitoring and S4C.

Department for Education

- Overall resource spending at the Department for Education will be reduced by 3.4 percent over the Spending Review period. This includes a £3.6 billion increase in schools budget and 60 percent reduction in real terms in capital spending by 2014-2015.
- £7.2 billion fairness premium introduced to support the education of the poorest pupils. The fairness premium will include a £2.5 billion schools premium for teaching for disadvantaged children, with the 5 to 16s schools budget rising by 0.1 percent in real terms each year, and a new £150 million National Scholarship fund.
- 15 hours of free childcare a week maintained for all 3- and 4-year-olds, and extended it to all disadvantaged 2-year olds-from 2012-2013.
- Sure Start services will be maintained, including new investment in Sure Start health visitors, and Sure Start will be refocused on its original purpose of improving the life chances of disadvantaged children. There will be an increase adult apprenticeship funding by £250 million a year by 2014-2015.

Home Office

- Overall resource spending will be reduced by 23 percent in real terms, and capital spending by 49 percent in real terms.
- Central government police funding will be reduced by 20 percent in real terms by 2014-2015.
- The UK Border Agency's budget will be reduced by up to 20 percent over the next four years by investing in new technologies, reducing support costs and improving value for money from commercial suppliers.

Scotland, Wales and Northern Ireland

- Scotland's block grant will fall by 6.8 percent by 2014-2015. Central funding for Wales will be reduced by 7.5 percent and Northern Ireland funding will be reduced by 6.9 percent over four years.