HM TREASURY

SPENDING REVIEW 2010

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SPENDING REVIEW 2010

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Executive Summary

The Spending Review sets out how the Coalition Government will carry out Britain's unavoidable deficit reduction plan. This is an urgent priority to secure economic stability at a time of continuing uncertainty in the global economy and put Britain's public services and welfare system on a sustainable long term footing. The Coalition Government inherited one of the most challenging fiscal positions in the world. Last year, Britain's deficit was the largest in its peacetime history – the state borrowed one pound for every four it spent. The UK currently spends £43 billion on debt interest, which is more than it spends on schools in England. As international bodies such as the IMF and OECD have noted, reducing the deficit is a necessary precondition for sustained economic growth. Failure to take action now would put the recovery at risk and place an unfair burden on future generations.

The Spending Review makes choices. Particular focus has been given to reducing welfare costs and wasteful spending. This has enabled the Coalition Government to prioritise the NHS, schools, early years provision and the capital investments that support long term economic growth, setting the country on a new path towards long term prosperity and fairness. As a result of these choices, departmental budgets other than health and overseas aid will be cut by an average of 19 per cent over four years, the same pace as planned by the previous government.

At the Budget, the Government set out plans for a significant acceleration in the reduction of the structural current budget deficit over the course of the Parliament. The fiscal mandate, against which the independent Office for Budget Responsibility (OBR) judges the Government's plans, is to eliminate the structural current budget deficit over a five year rolling horizon. This Spending Review is based on the Government's plans for current spending as set out in the Budget, on which basis the independent OBR has forecast that the fiscal mandate will be met one year early.

The Spending Review also sets out the Government's plans for capital spending. As part of the Spending Review process, the Government has looked at a range of capital projects to identify those with the highest economic value, and has assessed spending pressures from the previous government's contractual commitments. In light of this, the Spending Review has increased the capital envelope by £2.3 billion a year by 2014-15 relative to the Budget plan in order to ensure that capital projects of high long term economic value are funded. This change has no direct impact on the fiscal mandate, which targets the cyclically adjusted current balance, and will also not alter the year in which public sector net debt as a percentage of GDP begins to fall.

The consolidation will set debt on a sustainable downward path and will restore spending as a share of the economy to a level closer to its historical average, thereby addressing the structural imbalance in the public finances. Public spending as a percentage of GDP will return to the level seen in 2006-07, and in real terms it will return to around the level seen in 2008-09.

The Spending Review has for the first time covered key areas of Annually Managed Expenditure (AME) in addition to Departmental Expenditure Limits (DELs) for each government department and for the devolved administrations. The Spending Review sets out departmental spending plans for the four years until 2014-15 and further savings and reforms to welfare, environmental levies and public service pensions.

The Spending Review confirms key components of the Coalition Agreement setting out the Government's objectives and priorities for the Parliament, including commitments to:

- provide an NHS that is free at the point of use and available to everyone based on need not the ability to pay, with total NHS spending increasing in real terms in each year of the Parliament, including funding for priority hospital schemes including St Helier, Royal Oldham and West Cumberland;
- uprate the basic State Pension by a triple guarantee of earnings, prices or 2.5 per cent, whichever is highest, from 2011, while bringing forward the date at which the State Pension Age will start to rise to 66 to 2018 in order to ensure this is fiscally sustainable; and
- spend 0.7 per cent of GNI on overseas aid from 2013.

The Spending Review also secures an increase in the schools budget every year in real terms and additional early years provision for disadvantaged children, as well as meeting Britain's key security and defence commitments. Beyond this, the Spending Review aligns the allocation of public resources with the Government's overall objectives as set out in the Coalition Agreement. These prioritise:

- spending that promotes long term economic growth, introducing structural reforms to enable a private sector led recovery and building a low carbon economy; and
- fairness and social mobility, providing sustained routes out of poverty for the poorest.

These priorities are underpinned by radical reform of public services to build the Big Society where everyone plays their part, shifting power away from central government to the local level as well as getting the best possible value for taxpayers' money.

Growth

Over the last decade, the UK's economy became unbalanced, and relied on unsustainable public spending and rising levels of public debt. For economic growth to be sustainable in the medium term, it must be based on a broad-based economy supporting private sector jobs, exports, investment and enterprise.

The Spending Review:

- protects high value transport maintenance and investment, including over £10 billion over the Spending Review period on road, regional and local transport schemes,[1] including construction of the Mersey Gateway bridge; £14 billion for Network Rail, including major improvements to the East and West Coast Main Lines; £6 billion for upgrades and capital maintenance on the London Underground network; and funding to enable Crossrail to go ahead;
- ensures the UK remains a world leader in science and research by continuing support for the highest value scientific research, maintaining the science budget in cash terms over the Spending Review period with resource spending of £4.6 billion;
- increases adult apprenticeship funding by £250 million a year by 2014-15 relative to the level inherited from the previous government;
- invests in the low carbon economy, including through £1 billion of DEL funding and additional significant proceeds from asset sales for a UK-wide Green Investment Bank, and up to £1 billion for one of the world's first commercial scale carbon capture and storage demonstrations on an electricity generation plant; and

[1] Subject to completion of the appropriate statutory process.

- puts higher education on a sustainable financial footing, while providing support to individuals from low income backgrounds. Building on Lord Browne's Review of higher education funding and student finance, universities will be able to increase graduate contributions from the 2012-13 academic year.

Fairness

The Spending Review sets out a new vision for a fairer Britain. At its heart is social mobility. The Government believes that the existing system of support for the poorest has failed to deliver because it:

- relies too heavily on a complex means tested system of cash transfers and traps too many families in a cycle of welfare dependency; and
- fails to provide effective education and other services, particularly for young children, to help disadvantaged families improve their prospects.

The Spending Review therefore protects schools spending and increases support for the poorest in the early years and at every stage of their education by:

- introducing a new fairness premium – worth £7.2 billion in total over the Spending Review period – to support the poorest which includes:
  - an extension from 2012-13 to 15 hours per week of free early education and care to all disadvantaged two year old children, as the cornerstone of a new focus on the foundation years before school;
  - a substantial new premium worth £2.5 billion targeted on the educational development of disadvantaged pupils. The premium will sit within a generous overall settlement for schools, with the 5 to 16s schools budget rising by 0.1 per cent in real terms each year; and
  - protecting those on the lowest incomes in higher education through a National Scholarship fund of £150 million a year by 2014-15.
- providing capital funding for new schools, rebuilding or refurbishing over 600 schools through the Building Schools for the Future programme and investing in new school provision in areas of demographic pressure;
- protecting funding for Sure Start services in cash terms, including new investment in Sure Start health visitors; and
- supporting further increases in participation for 16 to 19 learning, while moving towards raising the participation age to 18 by 2015.

In addition, the Spending Review:

- introduces fundamental reforms to simplify the welfare system, promoting work and personal responsibility through the new Universal Credit as well as providing enhanced support for those with the greatest barriers to employment through the Work Programme. The Universal Credit will be introduced over two Parliaments to replace the current complex system of means tested working age benefits. It will ensure that work always pays and reduce fraud and error, while helping ensure that the welfare system is affordable;

- puts the welfare system on a sustainable footing, making net welfare savings of £7 billion a year, including through withdrawing Child Benefit from families with a higher rate taxpayer, reforming Employment and Support Allowance, controlling the cost of tax credits, and capping the amount a workless household can receive in benefits to no more than an average family gets by going out to work;
- makes social housing more responsive, flexible and fair so that more people can access social housing in ways that better reflect their needs. In future, social housing will more effectively reflect individual needs and changing circumstances. Social landlords will be able to offer a growing proportion of new social tenants new intermediate rental contracts that are more flexible, at rent levels between current market and social rents. The terms of existing social tenancies and their rent levels remain unchanged. Taken together with continuing, but more modest, capital investment in social housing, this will allow the Government to deliver up to 150,000 new affordable homes over the Spending Review period; and
- allocates £2 billion a year of additional funding by 2014-15 to support social care. Combined with a programme of reform and efficiency savings, such as greater use of personal budgets, this will mean local authorities will be able to improve outcomes and will not need to reduce eligibility for services.

The reforms underpinning the Spending Review represent a significant increase in the opportunities and funding available to the voluntary and community sector (VCS) in the medium and longer term. However, to help VCS organisations prepare for these opportunities, the Spending Review makes provision for a Transition Fund to support VCS organisations in the short term.

Reform

The Spending Review is underpinned by a radical programme of public service reform, changing the way services are delivered by redistributing power away from central government and enabling sustainable, long term improvements in services. This programme is built on the Coalition principles of increasing freedom and sharing responsibility, by:

- localising power and funding, including by removing ringfencing around resources to local authorities and extending the use of personal budgets for service users;
- cutting burdens and regulations on frontline staff, including policing, education and procurement;
- increasing diversity of provision in public services through further use of payment by results, removing barriers to greater independent provision, and supporting communities, citizens and volunteers to play a bigger role in shaping and providing services; and
- improving the transparency, efficiency and accountability of public services.

As a result, the Spending Review:

- provides a settlement for local government that radically increases local authorities' freedom to manage their budgets, but will require tough choices on how services are delivered within reduced allocations;
- announces that the sentencing framework will be reformed so that it both punishes the guilty and rehabilitates offenders more effectively, stemming the unsustainable rise in the UK prison population. This will include paying private and voluntary sector providers by results for delivering reductions in reoffending;

- ensures the effectiveness of frontline policing can be protected by reviewing terms and conditions of service, and making efficiencies in IT, procurement and the back office to deliver savings;
- accepts the findings of the interim Hutton Report on public service pensions. The Government will commit to continue with a form of defined benefit pension, and seek progressive changes to the level of employee contributions that will deliver an additional £1.8 billion of savings a year by 2014-15. The nature of the benefit and the precise level of progressive contributions will be determined once Lord Hutton's final recommendations have been received; and
- takes decisive action to cut the cost of central government, with a 34 per cent cut in administration budgets across the whole of Whitehall and its Arms Length Bodies, saving £5.9 billion a year by 2014-15.

Defence and security

The Spending Review provides the resources needed to defend the UK and its interests, and to fulfil the Government's objectives to strengthen international peace and stability. The Spending Review fully funds Britain's operations in Afghanistan, and targets investment on cyber defence and other expected future threats, in line with the outcome of the Strategic Defence and Security Review.

Next steps

Later this year, each Government department will publish a business plan setting out the details of its reform plans, in particular:

- vision and priorities to 2014-15;
- a structural reform plan, including actions and deadlines for implementing reforms over the next two years; and
- the key indicators against which it will publish data to show the cost and impact of public services and departmental activities. This section will be published for consultation to ensure that the Government agrees the most relevant and robust indicators in time for the beginning of the Spending Review period in April 2011.

To maintain the momentum for reform and consult further on how better to deliver services, the Government will publish a reform White Paper early in the New Year.

Table 1: Departmental Programme and Administration Budgets (Resource DEL excluding depreciation[1])

	£ billion					Per cent
	Baseline[2]	Plans				Cumulative
	2010-11	2011-12	2012-13	2013-14	2014-15	real growth
Departmental Programme and Administration Budgets						
Education[3]	50.8	51.2	52.1	52.9	53.9	**-3.4**
NHS (Health)	98.7	101.5	104.0	106.9	109.8	**1.3**
Transport	5.1	5.3	5.0	5.0	4.4	**-21**
CLG Communities[4]	2.2	2.0	1.7	1.6	1.2	**-51**
CLG Local Government 5	28.5	26.1	24.4	24.2	22.9	**-27**
Business, Innovation and Skills	16.7	16.5	15.6	14.7	13.7	**-25**
Home Office[6]	9.3	8.9	8.5	8.1	7.8	**-23**
Justice	8.3	8.1	7.7	7.4	7.0	**-23**
Law Officers' Departments	0.7	0.6	0.6	0.6	0.6	**-24**
Defence	24.3	24.9	25.2	24.9	24.7	**-7.5**
Foreign and Commonwealth Office	1.4	1.5	1.5	1.4	1.2	**-24**
International Development	6.3	6.7	7.2	9.4	9.4	**37**
Energy and Climate Change	1.2	1.5	1.4	1.3	1.0	**-18**
Environment, Food and Rural Affairs	2.3	2.2	2.1	2.0	1.8	**-29**
Culture, Media and Sport[7]	1.4	1.4	1.3	1.2	1.1	**-24**
Olympics[8]	-	0.1	0.6	0.0	-	**-**
Work and Pensions	6.8	7.6	7.4	7.4	7.6	**2.3**
Scotland[9]	24.8	24.8	25.1	25.3	25.4	**-6.8**
Wales[9]	13.3	13.3	13.3	13.5	13.5	**-7.5**
Northern Ireland[9]	9.3	9.4	9.4	9.5	9.5	**-6.9**
HM Revenue and Customs	3.5	3.5	3.4	3.4	3.2	**-15**
HM Treasury	0.2	0.2	0.2	0.2	0.1	**-33**
Cabinet Office[10]	0.3	0.4	0.3	0.2	0.4	**28**
Single Intelligence Account 11	1.7	1.7	1.7	1.7	1.8	**-7.3**
Small and Independent Bodies[12]	1.8	1.8	1.6	1.5	1.4	**-27**
Reserve	2.0	2.3	2.4	2.5	2.5	**-**
Special Reserve	3.4	3.2	3.1	3.0	2.8	**-**
Green Investment Bank	-	-	-	1.0	-	**-**
Total	**326.6**	**326.7**	**326.9**	**330.9**	**328.9**	**-8.3**
memo:						
Central government contributions to local government[13]	29.7	27.5	26.3	25.5	24.2	-26
Local Government Spending[14]	51.8	49.8	49.5	49.5	49.1	-14
Central government contributions to police	9.7	9.3	8.8	8.7	8.5	-20
Police Spending (including precept)	12.9	12.6	12.2	12.1	12.1	-14
Regional Growth Fund	-	0.5	0.5	0.4	-	-

1 Depreciation in Resource DEL is drawn from departmental resource accounts and follows International Financial Reporting Standards. This currently differs from National Accounts depreciation, which is used in the calculation of PSCE by the Office for National Statistics.

2 As at all spending reviews, baselines exclude one-off and time-limited expenditure and therefore may not sum to 2010-11 total. Cumulative real growth is calculated using the 2010-11 baseline.

3 Includes the Office of the Qualifications and Examinations Regulator

4 If grants moving to local government are included then CLG Communities growth is -33%

5 LG DEL includes funding for police and fire authorities. Excluding these contributions LG DEL for councils will fall by 28%

6 If contributions to police are excluded then the Home Office growth is -30%

7 The DCMS baseline excludes £85m of broadcasting funding, which the BBC will fund from 2013-14.

8 Olympics is included in DCMS DEL.

9 The Government agreed that as part of the £6.2bn cuts to 2010-11 budgets the Devolved Administrations could defer their cuts to 2011-12. The settlements presented here assume the Northern Ireland Executive take their cuts in 2010-11, the Scottish Executive take their cuts in 2011-12, and the Welsh Assembly Government split their cuts equally between 2010-11 and 2011-12. These settlements are subject to change as the Devolved Administrations finalise their spending plans.

10 Includes one-off funding in 2014-15 for Individual Electoral Registration (£85m) and the costs of the 2014 election to the European Parliament (£120m). Excluding these, the core Cabinet Office settlement will be cut by 35%.

11 Includes SIA contribution to National Cyber Security Programme

12 A more detailed breakdown of small and independent bodies' is set out in Table A12

13 Values and profile based on indicative allocations from departments.

14 Includes the OBR's forecast for growth in council tax receipts

Table 2: Departmental Capital Budgets (Capital DEL)

	£ billion					Per cent
	Baseline[1]	Plans				Cumulative
	2010-11	2011-12	2012-13	2013-14	2014-15	real growth
Capital DEL						
Education	7.6	4.9	4.2	3.3	3.4	**-60**
NHS (Health)	5.1	4.4	4.4	4.4	4.6	**-17**
Transport	7.7	7.7	8.1	7.5	7.5	**-11**
CLG Communities	6.8	3.3	2.3	1.8	2.0	**-74**
CLG Local Government	0.0	0.0	0.0	0.0	0.0	**-100**
Business, Innovation and Skills	1.8	1.2	1.1	0.8	1.0	**-52**
Home Office	0.8	0.5	0.5	0.4	0.5	**-49**
Justice	0.6	0.4	0.3	0.3	0.3	**-50**
Law Officers' Departments	0.0	0.0	0.0	0.0	0.0	**-46**
Defence	8.6	8.9	9.1	9.2	8.7	**-7.5**
Foreign and Commonwealth Office	0.2	0.1	0.1	0.1	0.1	**-55**
International Development	1.6	1.4	1.6	1.9	2.0	**20**
Energy and Climate Change	1.7	1.5	2.0	2.2	2.7	**41**
Environment, Food and Rural Affairs	0.6	0.4	0.4	0.4	0.4	**-34**
Culture, Media and Sport	0.2	0.2	0.2	0.1	0.1	**-32**
Olympics[2]	1.0	1.1	0.2	0.0	-0.1	**-**
Work and Pensions	0.2	0.2	0.3	0.4	0.2	**-5.5**
Scotland[3]	3.4	2.5	2.5	2.2	2.3	**-38**
Wales[3]	1.7	1.3	1.2	1.1	1.1	**-41**
Northern Ireland[3]	1.2	0.9	0.9	0.8	0.8	**-37**
HM Revenue and Customs	0.2	0.3	0.1	0.1	0.1	**-44**
HM Treasury	0.0	0.1	0.0	0.0	0.0	**-30**
Cabinet Office	0.0	0.0	0.0	0.1	0.0	**-28**
Single Intelligence Account 4	0.3	0.4	0.3	0.3	0.3	**-2.8**
Small and Independent Bodies	0.1	0.1	0.1	0.1	0.1	**-52**
Reserve	2.1	1.0	1.0	1.0	1.1	**-**
Special Reserve	0.7	0.7	0.8	0.8	0.8	**-**
Total Capital DEL	51.6	43.5	41.8	39.2	40.2	-29

1 As at all spending reviews, baselines exclude one-off and time-limited expenditure and therefore may not sum to 2010-11 total. Cumulative real growth is calculated using the 2010-11 baseline.

2 Olympics is included within DCMS DEL.

3 The Government agreed that as part of the £6.2bn cuts to 2010-11 budgets the Devolved Administrations could defer their cuts to 2011-12. The settlements presented here assume the Welsh Assembly Government and the Northern Ireland Executive take their cuts in 2010-11 and the Scottish Executive take their cuts in 2011-12. These settlements are subject to change as the Devolved Administrations finalise their spending plans.

4 Includes SIA contribution to National Cyber Security Programme

Table 3: Spending Review AME policy measures[1,2]

	£ million			
	2011-12	2012-13	2013-14	2014-15
Welfare measures[3]	**320**	**2,555**	**5,990**	**7,040**
Contributory Employment and Support Allowance: time limit for those in the Work Related Activity Group to one year	0	1,025	1,530	2,010
Housing Benefit: increase age limit for shared room rate from 25 to 35	0	130	225	215
Total household benefit payments capped on the basis of average take-home pay for working households	0	0	225	270
Disability Living Allowance: remove mobility component for claimants in residential care	0	60	130	135
Savings Credit: freeze maximum award for four years from 2011-12	165	215	260	330
Support for Mortgage Interest: extend temporary changes to waiting period and capital limit until January 2012	-70	-20	0	0
Cold Weather Payments: increase rate permanently to £25 from November 2010	-50	-50	-50	-50
Council Tax Benefit:10% reduction in expenditure and localisation	0	0	485	490
Child Benefit: remove from families with a higher rate taxpayer from January 2013	0	590	2,420	2,500
Working Tax Credit: freeze in the basic and 30 hour elements for three years from 2011-12	195	415	575	625
Working Tax Credit: reduce payable costs through childcare element from 80% to 70% restoring 2006 rate	270	320	350	385
Child Tax Credit: increase the child element by £30 in 2011 and £50 in 2012	-190	-510	-545	-560
Working Tax Credit: increase working hours requirement for couples with children to 24 hours	0	380	385	390
Child and Working Tax Credits: use real time information	0	0	0	300
Other AME policy	**335**	**1,285**	**2,770**	**3,515**
Public sector pensions:increase in employee contribution rates	0	160	1,270	1,760
Renewable Heat Incentive: efficiency savings	5	15	45	105
Carbon Reduction Commitment: no recycling of revenues	715	730	995	1,020
Royal Mint: reduction in metal cost for coinage	10	10	10	10
Equitable life payments[4]	-520	-315	-210	-100
Capitalisation: support for local authority restructuring	-240	0	0	0
Public Works Loan Board: interest rate increase	150	310	380	450
TfL Metronet: replace borrowing with central government grant	325	300	200	185
Right to Buy: surrender full receipts to Exchequer receipts	40	50	55	60
Housing Revenue Account System: reform	25	25	25	25
Northern Ireland Reinvestment and Reform Initiative	-175	0	0	0
Total AME measures	655	3,840	8,760	10,555
of which current AME savings	*290*	*3,155*	*8,100*	*9,835*

1 Costings reflect the Budget 2010 economic forecast and assumptions.

2 The costings only show the direct effects on Annually Managed Expenditure and do not take into account any direct effects on receipts, such as changes in Tax Credits that not only affect AME but also change negative tax. The negative tax implications of these policies are set out in the supplementary document Spending Review 2010 policy costings. Any implications for receipts will be taken on in the next forecast.

3 All measures start from the beginning of the financial year unless otherwise stated.

4 Figures include provisional estimates of administration costs that will be transferred to DEL once fixed. The amount that will be made available for payments to policyholders over the SR period is £1.1bn.

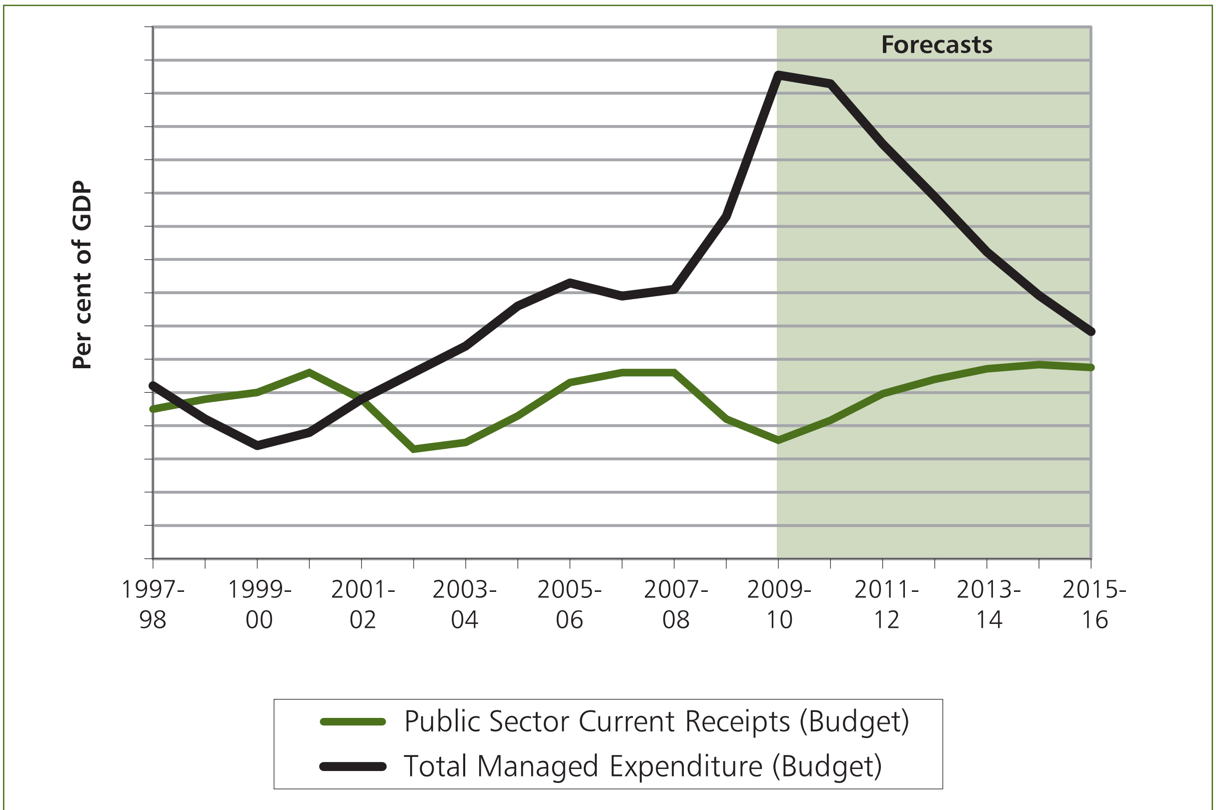
1 Overview

Introduction

Scale of the fiscal challenge

1.1 The spending plans in the 2007 Comprehensive Spending Review were based on unsustainable assumptions about the public finances. Chart 1.1 illustrates that from 2001 onwards public spending grew steadily as a share of the economy and a structural budget deficit began to emerge. Government measures to tackle this structural deficit did not begin to take effect until 2010, by which time the impact of the financial crisis had made an unaffordable situation unsustainable.

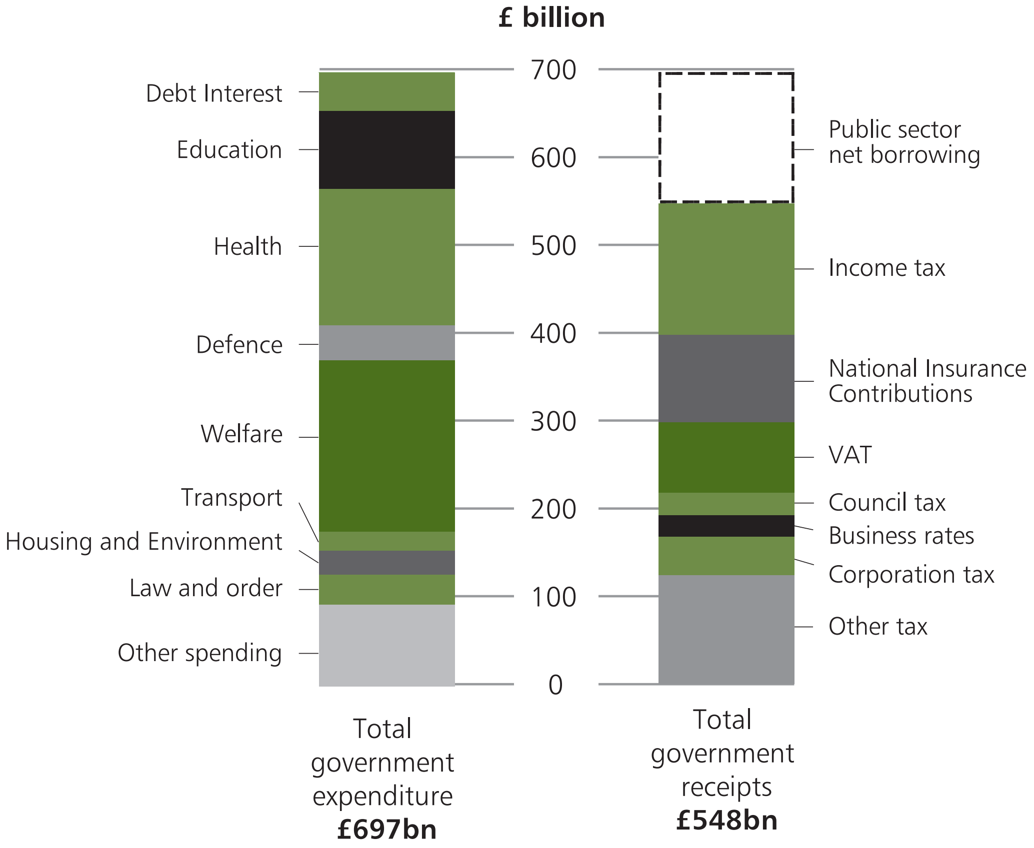
Chart 1.1: Receipts and expenditure



1.2 In the 20 years to 2006-07 and the beginning of the financial crisis, public spending averaged around 40 per cent of GDP. It then increased to a historically high level of 48 per cent by 2009-10. Receipts by contrast did not exceed 40 per cent over the whole period, and fell to 37 per cent in 2009-10.

1.3 As a result of this imbalance between levels of spending and tax receipts, the Coalition Government inherited one of the most challenging fiscal positions in the world. Britain's deficit last year was the largest in its peacetime history at 11 per cent of GDP, and the state was borrowing one pound for every four it spent. Chart 1.2 sets out total tax receipts and public expenditure in 2010-11 by category, and the level of borrowing required to make up the difference.

Chart 1.2: Total government expenditure and receipts in 2010-11



1.4 The current, historically high, level of public borrowing risks undermining fairness, growth and economic stability in the UK. Tackling the deficit is therefore essential as it will:

- reduce the UK's vulnerability to a further shock or loss of market confidence, which could force a much sharper fiscal adjustment;
- underpin private sector confidence, supporting growth and job creation over the medium term;
- help keep long term interest rates down, directly helping families and businesses through the lower costs of loans and mortgages;
- keep debt and debt interest payments paid by the Government – and ultimately the taxpayer – lower; and
- avoid accumulating substantial debts to fund spending that benefits today's generation at the expense of tomorrow's, which would be irresponsible and unfair.

1.5 This is why the Government laid out its plans at the June Budget for a significant acceleration in the reduction of the structural deficit over the course of the Parliament, compared with the plans of the previous government. The Government's plans are consistent with G20 agreement that countries with serious fiscal challenges should accelerate the pace of consolidation[1], and are supported by the OECD[2] and the IMF[3].

[1] G20 Finance Ministers' communiqué, June 2010.
[2] Angel Gurría, Secretary General of the OECD, 22 June 2010.
[3] *United Kingdom 2010 Article IV Consultation*, *Concluding Statement of Mission*, September 2010.

1.6 The Government has established a new fiscal policy framework to underpin these plans that:

- significantly improves the independence, transparency and credibility of the process of economic and fiscal forecasting, by creating the new Office for Budget Responsibility (OBR) to prepare the forecasts on which the Government's fiscal policy decisions will be based; and
- sets a forward looking fiscal mandate to guide fiscal policy decisions over the medium term. The Chancellor asked the OBR to judge whether the Government's fiscal policy is consistent with a greater than 50 per cent chance of achieving this mandate.

Box 1.1: Office for Budget Responsibility

The Government established the Office for Budget Responsibility (OBR) on an interim basis on 17 May 2010. The OBR will significantly improve the independence, transparency and credibility of the official economic and fiscal forecast on which the Government bases its fiscal policy.

The interim OBR, chaired by Sir Alan Budd, provided an independent assessment of the UK economy and public finances on 14 June 2010. It produced the economy and public finances forecast on the basis of the Government's plans at the June Budget.

On 9 September 2010, the Government announced Robert Chote as its preferred candidate for the position of Chair of the OBR. Mr Chote's appointment was approved by the Treasury Select Committee on 16 September 2010.

On 12 October 2010, the Government announced Professor Stephen Nickell and Graham Parker as its preferred candidates for membership of the Budget Responsibility Committee alongside Mr Chote. The Treasury also published the OBR's new Terms of Reference, which have been agreed with the Chair of the OBR and provide clear guidance on the OBR's role and responsibilities until legislation comes into force to place it on a statutory basis.

As part of this Spending Review, and consistent with the approach taken in the June Budget, the OBR has provided independent scrutiny of the Government's costing of Annually Managed Expenditure (AME) policies.

The OBR will produce an updated economic and fiscal forecast on Monday 29 November. The Chancellor will make a statement to the House of Commons presenting the contents of that updated forecast.

Scale of the consolidation

1.7 The fiscal mandate set at the Budget is to achieve cyclically adjusted current balance by the end of the rolling, five year forecast period. Given the rising profile for public sector net debt (PSND), the Government supplemented this with a target for PSND as a percentage of GDP to be falling at a fixed date of 2015-16, ensuring that the public finances are restored to a sustainable path.

1.8 The Budget announced an overall, five year fiscal plan consistent with this fiscal mandate. The greatest contribution to the consolidation will come from public spending reductions, rather than tax increases, as:

- this is consistent with economic evidence which suggests that fiscal consolidation efforts that rely largely on spending restraint are more likely to promote growth and stabilise debt;[4]
- this will restore spending as a share of the economy to a level closer to its historical average, thereby addressing the structural imbalance in the public finances; and

[4] e.g. see *UK Article IV Consultation*, IMF, May 2009 and *Economic Outlook No. 81*, OECD, June 2007 and Alberto Alesina and Roberto Perotti, *Fiscal Adjustments in OECD countries: Composition and Macroeconomic Effects*, NBER Working Paper, August 1996.

- reducing government expenditure now will help to accommodate future spending pressure. The OBR's pre-Budget forecast highlighted the issue of an ageing population in the UK and the fact that demographic trends are putting upward pressure on health care and pension spending in particular.

1.9 The OBR's central projections at the June Budget showed that the Government's consolidation plan will:

- reduce public sector net borrowing from a peak of 11.0 per cent of GDP in 2009-10 to 1.1 per cent of GDP in 2015-16;
- eliminate the cyclically adjusted or structural current deficit by 2014-15; and
- place PSND on a downward path from 2014-15.

1.10 As part of the Spending Review process, the Government has looked at a range of capital projects to identify those with the highest economic value, and assessed spending pressures from the previous government's contractual commitments. In light of this, the Spending Review makes an adjustment to the capital envelope to ensure that capital projects of high long term economic value are funded. As a result, public sector gross investment will be £2 billion higher in 2011-12 and 2012-13, and £2.3 billion higher in 2013-14 and 2014-15. This adjustment brings total spending cuts to £81 billion by 2014-15,[5] compared to the £83 billion set out in the June Budget. This adjustment will not alter the year in which PSND as a share of GDP begins to fall, nor does it impact directly on the cyclically adjusted current balance, against which the Government's fiscal mandate is assessed.

1.11 Of the £81 billion of savings required by 2014-15, over £30 billion were announced in detail at the June Budget, including:

- £11 billion of welfare reform savings;
- £3.3 billion from a two year freeze in public sector pay starting in 2011-12;
- £6 billion of efficiency savings in 2010-11;[6] and
- £10 billion from lower debt interest payments compared to the cost had there been no consolidation.

1.12 The Spending Review sets out the remaining spending reductions required to deliver the Government's consolidation plans. For the first time, the Spending Review has considered key areas of Annually Managed Expenditure (AME)[7] in addition to Departmental Expenditure Limits (DELs) for each government department and for the devolved administrations. Table 1.1 sets out the capital and current Spending Review envelopes, and how these break down between DEL and AME as a result of the decisions in the Spending Review.

[5] Compared with departmental expenditure remaining constant in real terms and the OBR's pre-Budget forecast for Annually Managed Expenditure (AME).
[6] Savings increase to £7 billion in cash terms by 2014-15.
[7] *The Spending Review Framework*, published on 8 June 2010, set out that within AME, social security, tax credits and public service pensions were included within the Spending Review, while central government debt interest, BBC domestic services, National Lottery and net expenditure transfers to EU institutions were excluded, as they are either self financing or not directly within Government control.

Table 1.1: Total Managed Expenditure

	£ billion				
	Plans	Forecasts			
	2010-11	2011-12	2012-13	2013-14	2014-15
CURRENT EXPENDITURE					
Resource Annually Managed Expenditure	294.6	307.8	319.5	329.1	344.0
Resource Departmental Expenditure Limits	342.7	343.3	345.0	349.6	348.7
Public sector current expenditure	637.3	651.1	664.5	678.6	692.7
CAPITAL EXPENDITURE					
Capital Annually Managed Expenditure	7.8	7.3	6.7	6.4	6.9
Capital Departmental Expenditure Limits	51.6	43.5	41.8	39.2	40.2
Public sector gross investment	59.5	50.7	48.5	45.6	47.1
TOTAL MANAGED EXPENDITURE	696.8	701.8	713.0	724.2	739.8
Spending Envelope for Spending Review 2010[1]		**641.6**	**646.7**	**651.6**	**660.9**
Of which:					
Resource spending envelope		591.6	598.9	606.7	614.5
of which Annually Managed Expenditure		*248.4*	*253.9*	*257.2*	*265.8*
of which Departmental Expenditure Limits		*343.3*	*345.0*	*349.6*	*348.7*
Capital spending envelope		50.0	47.8	44.8	46.4
of which Annually Managed Expenditre		*6.5*	*6.0*	*5.6*	*6.2*
of which Departmental Expenditure Limits		*43.5*	*41.8*	*39.2*	*40.2*

[1] The envelope is defined as Total Managed Expenditure less BBC domestic services, National Lottery, net expenditure transfers to EU institutions and debt interest.

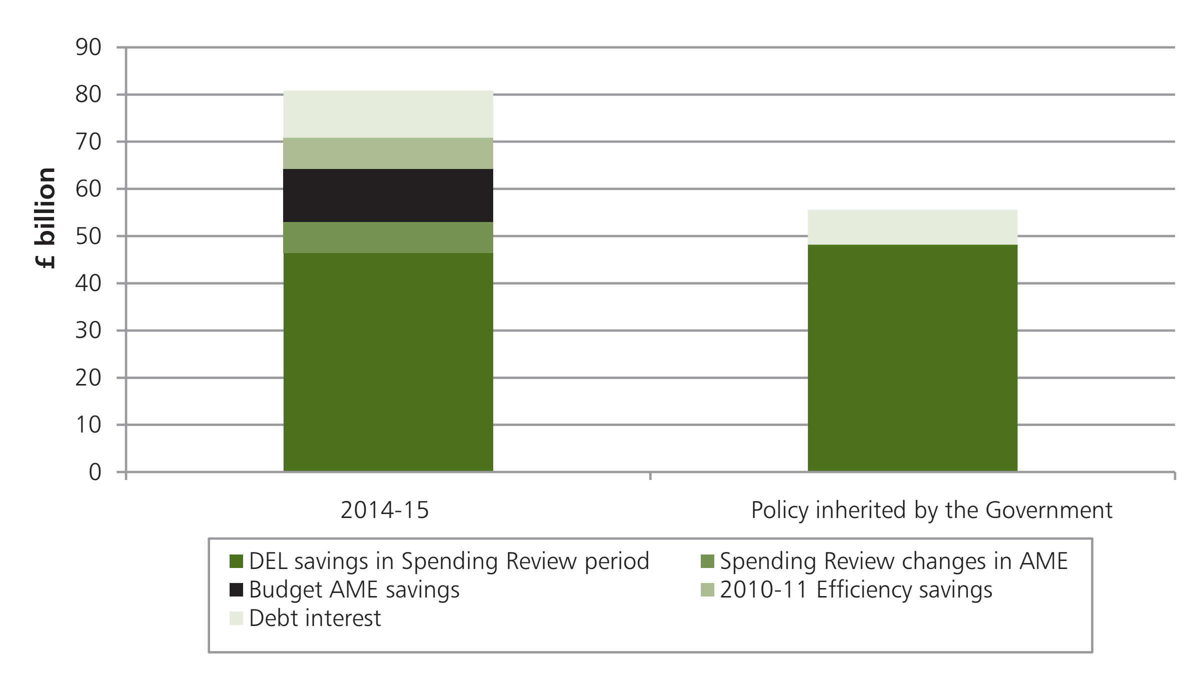
1.13 The Spending Review announces further savings and reforms in welfare, environmental levies and public service pensions, as well as departmental spending plans for the four years until 2014-15. Once the Government's commitments to protect spending on health and overseas aid are taken into account, other departments will see average real budget cuts of around 19 per cent over the Spending Review period.

1.14 Chart 1.3 illustrates the size and composition of the Coalition Government's spending consolidation plans, alongside the plan it inherited from the previous government.[8] It sets out the efficiency savings announced in May, and the AME savings set out at the Budget and Spending Review. Once these are taken into account, the additional reductions made to departmental spending over the Spending Review period are no greater than the cuts that were planned by the previous government over the same period.

1.15 Even after these spending cuts, total public spending (Total Managed Expenditure) in 2014-15 will be higher in real terms than in 2008-09. At 41 per cent of GDP, this will be around the same level of public spending as in 2006-07. Spending on public services in 2014-15 will be higher than 2006-07 levels in real terms.

[8]Spending reductions against a baseline of growing DEL in line with general inflation in the economy, in line with Table 4.8 in the OBR pre-Budget forecast, and AME as forecast at the June Budget, including estimated debt interest savings from 2010-11 as set out in Tables 1.1 and 2.1 of the June Budget.

Chart 1.3: Composition of spending consolidation plans and the previous government's plans[9]



The spending framework

1.16 Delivering these spending plans will require a robust framework to control spending. There are two aspects of the existing system that weaken spending control. First, since AME spending is not subject to firm limits, departments do not have the same incentives to manage it as they have to manage DEL spending. Second, the End Year Flexibility (EYF) system which allows departments to carry forward unspent budget provision into future years to discourage wasteful end-year spending has, in practice, led to accumulated stocks of around £20 billion that would further increase the deficit if they were spent.

1.17 To strengthen the spending framework, the Government is:

- improving the incentives to control AME spending, including social security benefits and DECC levy funded spending. Further detail will be set out at the Budget;
- abolishing the EYF scheme at the end of 2010-11, including all accumulated stocks, and replacing it with a new system from 2011-12 which will retain an incentive for departments to avoid wasteful end-year spending and strengthen spending control. Further detail will be set out later this financial year;
- extending administration budgets to cover Non-Departmental Public Bodies and other Arms Length Bodies in order to drive down the costs of administration across Whitehall; and
- transferring responsibility for the revenue costs of local government Private Finance Initiative (PFI) projects from local government to the sponsoring department to remove perverse incentives for projects to be delivered through PFI.

[9] Spending reductions against baseline of growing DEL in line with inflation, in line with Table 4.8 in the OBR pre-Budget forecast, and the AME forecast in the Budget. Spending Review changes in AME are net of the AME margin. This comparison assumes the same AME margin for the policy inherited by the Government as the Government has set in the Spending Review.

The Government's Spending Review choices and priorities

1.18 The Spending Review makes choices. Particular focus has been given to reducing welfare costs and wasteful spending. This has enabled the Coalition Government to prioritise the NHS, schools, early years provision and the capital investments that support long term economic growth.

1.19 The Spending Review confirms key components of the Coalition Agreement setting out the Government's objectives and priorities for the Parliament, including commitments to:

- provide an NHS that is free at the point of use and available to everyone based on need not the ability to pay, with total NHS spending increasing in real terms in each year of the Parliament;
- uprate the basic State Pension by a triple guarantee of earnings, prices or 2.5 per cent, whichever is highest, from 2011, while bringing forward the date at which the State Pension Age will start to rise to 66 to 2018 in order to ensure this is fiscally sustainable; and
- spend 0.7 per cent of GNI on overseas aid from 2013.

1.20 The Spending Review also secures an increase in the schools budget in real terms and additional early years provision for disadvantaged children, as well as meeting Britain's key security and defence commitments. Beyond this, the Spending Review aligns the allocation of public resources with the Government's overall objectives as set out in the Coalition Agreement. These prioritise:

- spending that promotes long term economic growth, introducing structural reforms to enable a private sector led recovery and building a low carbon economy; and
- fairness and social mobility, providing sustained routes out of poverty for the poorest.

1.21 These priorities are underpinned by radical reform of public services to build the Big Society where everyone plays their part, shifting power away from central government to the local level as well as getting the best possible value for taxpayers' money.

1.22 The rest of this chapter sets out in more detail how the Spending Review delivers against these priorities.

Box 1.2: The Government's approach to the Spending Review

The Coalition Government has taken a completely new approach to the Spending Review, based on openness, innovation and consultation. The Spending Review Framework, published in June, committed the Government to:

- engaging widely. It has consulted with experts and the public through roundtable discussions and regional events, and has invited public sector workers and the public to submit money saving ideas through the Spending Challenge website (see Box 1.3).The most promising ideas from the Spending Challenge website and other representations made by consultees and others have been taken into account;
- thinking innovatively about the role of government in society. The Spending Review sets out a comprehensive programme of public service reform. The Government appointed an Independent Challenge Group to work with departments and the Treasury to consider opportunities for reform; and
- taking decisions collectively through the Public Expenditure Cabinet committee (PEX).

Growth

1.23 Over the last decade, the UK's economy became unbalanced, and relied on unsustainable public spending and rising levels of public debt. For economic growth to be sustainable in the medium term, it must be based on a broad-based economy supporting private sector jobs, exports, investment and enterprise.

1.24 The Government by itself cannot create private sector growth, but it can create the conditions that enable UK businesses to be successful – to invest and create jobs and prosperity for the whole country. The June Budget set a clear direction of travel, including a phased reduction in the main rate of corporation tax from 28 per cent to 24 per cent. The Government's approach is based on:

- creating macroeconomic and financial stability, so that interest rates stay low and businesses have the certainty they need to plan ahead;
- helping markets work more effectively, to encourage innovation and the efficient allocation of resources;
- ensuring that it is efficient and focused in its own activities, so as to prioritise high value spending and reduce the burden of tax and regulation on the private sector; and
- ensuring that everyone in the UK has access to the opportunities they need to fulfil their potential.

1.25 The Spending Review puts public spending on a sustainable footing, demonstrating how the Government is delivering its plans to reduce the deficit and support macroeconomic stability. The Spending Review also takes decisions to:

- prioritise spending which supports private sector growth and investment;
- deliver outcomes that support growth where the private sector would not;
- set out the measures to improve opportunities for everyone across the UK; and
- incentivise the transition to a low carbon economy.

1.26 This forms part of a broader agenda of structural reform, for example in the banking, schools and planning systems, to address the barriers to growth which underlie the UK's relatively poor productivity.

Box 1.3: Spending Challenge

In June, the Government invited public service workers and the public to suggest money saving ideas. Over 100,000 suggestions were submitted. These proposals have influenced Spending Review decisions, including suggestions to:

- reform the Educational Maintenance Allowance (EMA) grant and Child Benefit. The Spending Review removes Child Benefit from families with a higher rate taxpayer and replaces EMAs with locally managed discretionary funds to target support;
- introduce a more preventative focus across public services. The Government will ringfence funding for a Public Health Service to improve the health of the whole population and particularly pockets of ill health and health inequalities;
- build closer links across health and social care. The Government will aim to break down the barriers between health and social care funding through new approaches including reablement services provided by the NHS; and
- minimise tax fraud, evasion and avoidance. The Spending Review allocates over £900 million to combat these, raising an estimated £7 billion a year by 2014-15.

The Spending Challenge ideas also suggested hundreds of practical ways to help deliver more for less. Among the ideas being taken forward now are reforms to:

- initiate a programme to centralise the procurement of commonly used goods and services, bringing efficiency gains of over £400 million a year;
- increase the portability of Criminal Records Bureau (CRB) checks by making greater use of electronic access for employers. As a first step, the Government is reducing the number of CRB checks required for junior doctors, saving £1 million a year;
- change how Jobcentre Plus measures performance, cancelling at least two target management contracts to save at least £1.2 million a year;
- stop producing National Insurance cards, saving £1 million a year;
- reduce the use of artificial lighting on the Ministry of Defence Estate. This could save around 15 tonnes of carbon dioxide and £2,000 a year per typical office;
- no longer require Primary Care Trusts to deliver hard copies of "Your Guide to NHS Services" to every household, saving up to £2.5 million a year;
- mandate consideration and comparison of open source software for Government IT;
- significantly drive down the costs of in-house Government publications, saving at least £0.5 million this year and a further £0.25 million a year in future; and
- implement new standard guidance on Government travel policies, bringing them in line with industry best practice, to save £100 million a year.

Departments will continue to review ideas and implement those that could help to deliver further efficiencies.

Prioritising growth enhancing spending

1.27 As set out earlier, to protect the most productive public sector investment, the Government has increased the capital Spending Review envelope. As a result, there will be no further cuts to the levels of capital spending beyond those planned by the previous government.

1.28 To ensure that capital spending is focused on the projects that deliver the highest economic returns, the Government has, for the first time, undertaken a fundamental review of capital spending plans across the public sector. It has analysed the economic value of around 250 projects and programmes, taking into account existing contractual commitments.

1.29 In particular, the Government is:

- prioritising economic infrastructure that supports growth (such as investment in transport) and the transition to a low carbon economy; and
- taking steps to support private sector investment in infrastructure, for example through plans for a Green Investment Bank.

1.30 The Government has also prioritised current spending which helps deliver outcomes that support growth, including a strong science and research base, which the private sector would not provide. For example, it is increasing core funding for schools and expanding adult apprenticeships, and prioritising funding for world class research.

1.31 The Spending Review also sets out measures to help improve opportunities for everyone across the UK.

Transport infrastructure

1.32 High quality transport links are essential to underpin a successful economy. In 2014-15, transport capital investment will be higher in real terms than 2005-06 levels.

1.33 The Spending Review prioritises capital spending on transport projects which can offer high economic returns when compared to investment projects in other sectors. By focusing on projects that deliver greater benefits in return for their costs, the positive impact of capital spending on the wider economy can be maximised:

- over £10 billion will be invested over the Spending Review period on maintenance and investment in new high value road, regional and local transport schemes,[10] while seeking significant cost reductions across the programme. This includes:
  - widening the remaining section of the A11 to provide a continuous dual carriageway link between Norwich and the M11;
  - improving the junction between the M4 and M5;
  - easing congestion on the M1 between junctions 28 and 31;
  - extending the route and increasing capacity on the Midland Metro;
  - constructing a new suspension bridge over the River Mersey; and
  - upgrades to the Tyne and Wear Metro.
- over £14 billion will be provided for Network Rail, supporting maintenance and investment to continue to enhance the capacity and speed of services across the country. In addition, the Government is supporting investment to improve journey reliability on Great Western Main Line services to Wales; and

[10] Subject to completion of the appropriate statutory process.

- funding will be made available to enable Crossrail to go ahead, providing an additional 10 per cent capacity to London's rail network, while continuing to seek efficiency savings to maximise value for money from the scheme. In addition, £6 billion will be spent on upgrades and capital maintenance on the London Underground network, supporting growth by improving reliability and reducing journey times.

1.34 The Government is also proceeding with its plans to deliver a new high speed rail network from London to Birmingham, and then to both Manchester and Leeds, and will bring forward legislation during this Parliament that would allow the project to proceed.

Science

1.35 To support long term growth, the Government will prioritise support for world class science maintaining spending in cash terms. The Government will also increase the efficiency of the science budget, saving £324 million a year by 2014-15. These efficiency savings will be reinvested in science. A ring-fence will be maintained to ensure continuity of investment in science and research. In addition, £220 million will be invested in the construction of the UK Centre for Medical Research and Innovation at St Pancras. The cutting edge Diamond Synchrotron facility in Oxfordshire will receive £69 million of public funding over the Spending Review period in partnership with the Wellcome Trust.

1.36 The Government will seek to drive commercial investment in scientific knowledge by reforming the Higher Education Innovation Fund.

Regional growth

1.37 The Spending Review also sets out measures to help improve opportunities for everyone across the UK. These include the Regional Growth Fund (RGF), supporting investment in infrastructure that underpins economic growth, and the Work Programme. In light of responses to the RGF consultation, the fund is to be extended to three years and is increased in size from the £1 billion announced at the Budget to £1.4 billion. Local Enterprise Partnerships will provide strategic leadership in their areas to set out local economic priorities, and play a pivotal role in helping rebalance the economy towards the private sector.

1.38 A White Paper on local growth will set out the Government's strategy for ensuring that all places benefit from sustainable economic growth. A central part of this will be ensuring that growth is driven by local businesses and communities, as well as providing the means and incentives to allow local communities to benefit directly from economic development in their area.

Digital infrastructure

1.39 Advances in information and communications technologies have driven productivity improvements across the private and public sectors. In order to ensure all regions can benefit from these potential gains, £530 million will be invested over the Spending Review period to support the UK's broadband network and to incentivise the roll out of superfast broadband in areas that the private sector would not otherwise reach.

Supporting the low carbon economy

1.40 The Government is committed to reducing the UK's carbon emissions. The Spending Review announces major new reforms and investment in low carbon technologies to help position the UK at the forefront of the transition to a low carbon economy:

- enabling households to improve the energy efficiency of their homes at no upfront cost, repaying through the savings they make on their energy bills, through a Green Deal;
- up to £1 billion for one of the world's first commercial scale carbon capture and storage demonstrations on an electricity generation plant;

- more than £200 million for the development of low carbon technologies including offshore wind technology and manufacturing at ports sites;
- support for low carbon vehicles through an incentive scheme offering up to £5,000 towards the cost of a new ultra low emission vehicle from January 2011, and support for electric car charging infrastructure;
- £860 million of new support over the Spending Review period to support households and businesses investing in renewable heat measures; and
- increased expenditure through existing support mechanisms that are funded through obligations on energy companies, that will lead to a total of £5.6 billion of support for renewable electricity installations over the Spending Review period.

1.41 The Coalition Agreement set out the Government's commitment to establish a UK-wide Green Investment Bank. The Government will initially capitalise a new institution with £1 billion of DEL funding together with additional significant proceeds from the sale of Government owned assets, subject to a final design which meets the tests of effectiveness, affordability and transparency. £250 million of the DEL funding will be made available on the basis that the Scottish Executive agrees to the drawdown of funds from the Scottish Fossil Fuel Levy surplus. The institution will be able to reinvest the proceeds from its investments.

1.42 The new institution will make a radical new contribution to financing green infrastructure through having an explicit mandate to tackle risk that the market currently cannot adequately finance. It will catalyse further private sector investment, aiming to facilitate the entrance of new types of investor into green infrastructure so that the impact on the finance gap for low carbon investment is many times the scale of the public contribution. It will make its investment decisions independent from political control and will employ private sector skills and expertise. The Government aims to complete design and testing work by Spring 2011.

1.43 The Government is also providing funding for adaptation to the impacts of climate change, with continued investment in flood and coastal erosion risk management. This will lead to better protection for 145,000 homes by the end of the Spending Review period.

Regional examples of capital projects

North West
Manchester – northern urban centres rail capacity improvements
Mersey Gateway Bridge – new suspension bridge over the River Mersey between Widnes and Runcorn
Cumbria – superfast broadband pilot project and West Cumberland hospital redevelopment
Lancashire – Royal Oldham hospital redevelopment and Typhoon fast jet construction

Northern Ireland
Most public spending on capital is devolved and it is for the Northern Ireland Executive to decide which projects to prioritise

Wales
Road – devolved to the Welsh Assembly Government
Broughton – continued construction of the wings of the Future Strategic Tanker Aircraft
Newport and Cardiff – major rail signalling renewal programme
Barry to Cardiff corridor – increased line speeds and network capacity

West Midlands
HS2 – new high speed rail link from London to Birmingham, and then to both Manchester and Leeds
Midland Metro – route extension and capacity increase
Birmingham New Street – station upgrade
Herefordshire – superfast broadband pilot project

South West
M4/M5 – hard shoulder running and variable speed limits north of Bristol
Yeovil – support to Agusta Westland for civil rotorcraft design and manufacture
Weymouth 2012 package – an integrated transport package to be delivered in time for the Olympics
Poole Bridge – new bridge providing link to key development sites

South East
A23 – improvements to the A23 Trunk Road between Handcross and Warninglid
Diamond Synchrotron – Phase 3 development of the national science research facility
Surrey – St Helier hospital redevelopment

London
Crossrail – a new rail line linking East and West London providing an additional 10% to London's rail capacity
Transport for London – continued funding will help support the London Underground upgrade programme which will increase capacity by 30%
UK Centre for Medical Research and Innovation
M25 – widening from junctions 16 to 25, and 27 to 30

Scotland
Rail and Roads – devolved to the Scottish Executive
HM Naval base Clyde – home of the UK's submarine fleet including the Astute class submarines and the Deterrent submarines
Glasgow and Rosyth – partial construction of the aircraft carriers
Highlands and Islands – superfast broadband pilot project

North East
East Coast – improvements to the East Coast Main Line
Nexus – refurbish and upgrade the Tyne & Wear metro
Tees Valley – bus network enhancements

Yorkshire & the Humber
M62 – hard shoulder running and variable speed limits between junctions 25 and 30
Leeds Station – new southern entrance to improve access
Yorkshire – northern urban centres rail capacity improvements
Sheffield to St Pancras – line speed improvements
Northern Yorkshire – superfast broadband pilot project
Boston Spa – British Library Newspaper archive

East Midlands
A46 – improvements between Newark and Widmerpool
M1/M6 viaduct – replacment of failing Catthorpe viaduct carrying the M6 over the M1 at Junction 19
M1 – hard shoulder running and variable speed limits between Junctions 28 and 31
Nottingham re-signalling – improved performance for train services operating through Nottingham

East of England
A11 – upgrading the remaining section to provide a continuous dual carriageway link between Norwich & the M11
M1 – hard shoulder running and variable speed limits between Junctions 10 and 13
A130/A13 Sadler's Farm Junction – improved access within the Thames Gateway

Skills

1.44 A skilled workforce supports growth and productivity. The Spending Review announces that:

- funding for adult apprenticeships will be increased by £250 million a year by 2014-15, relative to the level inherited from the previous government; and
- there will be real terms increases in the 5 to 16s schools budget of 0.1 per cent in each year of the Spending Review period, including a £2.5 billion pupil premium for disadvantaged children.

Structural reforms

1.45 The Government's broader growth agenda, beyond public spending, is to provide the conditions for private sector growth, by helping markets work more efficiently and by addressing the structural barriers which underlie the UK's relatively poor productivity.

1.46 Reforms to the banking, planning and schools systems will help address long standing structural barriers to growth, while welfare reform will play a key role in getting more people into work. As part of this agenda:

- the Government is radically reforming the schools system, as set out later in this chapter;
- the Government is reforming planning. The Localism Bill will ensure that the planning system both works for sustainable growth and is responsive to the needs of local communities. As part of these wider reforms, there will be a new presumption in favour of sustainable development;

- the Independent Commission on Banking will bring forward recommendations for measures to reform the banking system and promote stability and competition;
- the Government is radically simplifying the existing benefits system through the creation of a new Universal Credit, to ensure that it always pays to work;
- the Government is providing enhanced support for those with the greatest barriers to employment through the Work Programme, incentivising specialist private providers through an innovative payment by results mechanism; and
- the Government is ensuring the Jobcentre Plus network can continue to provide support that is internationally acclaimed as effective in getting people back into work.

Higher and further education

1.47 In further and higher education, the Government believes that there must be a shift away from public spending towards greater contributions from those that benefit most and who can afford to pay, to maintain high quality provision while ensuring the sustainability of the public finances. To help ensure the quality of provision, these increased contributions will be combined with reforms to deliver more choice, with better information for learners.

1.48 In higher education, building on the recommendations of Lord Browne's Review of higher education funding and student finance,[11] the Spending Review announces that, from the 2012-13 academic year, universities will be able to increase graduate contributions. There will be loan support from Government for full and, for the first time, part time students, with an offsetting reduction in the teaching grant.

1.49 To ensure a fair deal for students, including those from low income backgrounds, and low income graduates, the Government will establish a new £150 million National Scholarship fund to support students from disadvantaged backgrounds.

1.50 In further education, individuals aged 24 years and above wishing to gain a level 3 qualification (A-Level equivalent) will be supported by the offer of a Government backed student loan to meet tuition costs. Loans will be available to learners with repayment on an income contingent basis. In addition, in order to drive up quality in the further education system, the Government will free colleges from bureaucracy by simplifying the funding, streamlining Arms Length Bodies and abolishing central targets, and will improve the information and advice for learners.

Fairness

1.51 The Spending Review sets out a radical new vision for a fairer Britain. At its heart is social mobility. The Government believes that the existing system of support for the poorest has failed to deliver because it:

- relies too heavily on a complex means tested system of cash transfers and traps too many families in a cycle of welfare dependency; and
- fails to provide effective education and other services, particularly for young children, to help disadvantaged families improve their prospects.

[11] *Securing a sustainable future for higher education – an independent review of higher education funding and student finance*, 12 October 2010, www.independent.gov.uk/browne-report.

1.52 The Spending Review therefore sets out a programme of reforms that will ensure that those who need it most will continue to receive appropriate support from the state, but shifts the focus of that support away from welfare payments to the services that deliver opportunities for social mobility in the longer term. The Spending Review allocates £7 billion a year of net AME savings from welfare by 2014-15 to enable a greater proportion to be spent on services, and focuses on giving the poorest children the very best start in life.

1.53 The Government believes that fairness must also be about taking the right decisions to tackle the deficit. This will ensure that future generations are not burdened with unsustainable debts leading to higher taxes and diminished public services. Fair deficit reduction means that, in the short term, all sections of society who are able to contribute to deficit reduction should do so, with more support available for the poorest.

Fairness for the future

1.54 The UK's existing system of support can trap the poorest families and children in welfare dependency. For many poor children the current system of support delivers little practical change in their long term economic prospects. Many born into the very poorest families will typically spend their entire lives in poverty. The Government wants to fundamentally change the prospects of these children. It will do this by offering real opportunities at every stage of childhood and education to raise children out of long term poverty.

1.55 To build a fairer and more mobile society, the Spending Review introduces a new fairness premium – worth £7.2 billion in total over the Spending Review period – to support the poorest in the early years and at every stage of their education. The fairness premium includes:

- extending 15 hours per week of free early education and care to all disadvantaged two year old children from 2012-13, at a total cost of around £300 million a year. This new provision builds on a continued universal entitlement to 15 hours of free early education per week for all three and four year olds and Sure Start services protected at flat cash;
- introducing a substantial schools premium, rising progressively to £2.5 billion by 2014-15, to support the educational development of disadvantaged pupils and incentivise good schools to take on pupils from more disadvantaged backgrounds. The premium will sit within a generous overall settlement for schools, with the 5 to 16s schools budget rising by 0.1 per cent in real terms in every year of the Spending Review period; and
- protecting those on the lowest incomes in higher education through a National Scholarship fund of £150 million by 2014-15.

1.56 The Spending Review provides capital funding for new schools by rebuilding or refurbishing over 600 schools through the Building Schools for the Future programme, and investing in new school provision in areas of demographic pressure.

1.57 The Government also supports further increases in participation for 16 to 19 learning, while moving towards raising the participation age to 18 by 2015.

1.58 Governments cannot create lasting social change on their own. The reform programme set out later in this chapter contains measures to break down barriers, increase transparency and devolve powers, so that individuals, parents, communities and society as a whole can play a full role in the development of themselves and their children.

Reforming the welfare state

1.59 The Government is also reforming the welfare system itself. The existing system too often traps people in dependency – their family income affected only by centrally determined changes in welfare payments rather than their own efforts to earn a better wage and improve their position. Since 1996-97, this approach has led to spending on working age benefits and tax credits increasing by nearly 40 per cent in real terms, while 1.4 million people have remained on out of work benefits for nine or more of the last ten years.[12]

1.60 The measures announced in the Spending Review will radically change the welfare system, ensuring that it promotes work and personal responsibility while controlling expenditure. The new Universal Credit will replace the current complex system of means tested working age benefits with an integrated payment over the next two Parliaments, reducing fraud and error and ensuring that work always pays. Enhanced support will also be available through the Work Programme for those with the greatest barriers to employment.

1.61 To ensure the welfare system is sustainable, the Spending Review announces further welfare savings, including reforms to:

- save £2.5 billion a year by 2014-15 by withdrawing Child Benefit from families with a higher rate taxpayer so that people on lower incomes are not subsiding those who are better off;
- cap household benefit payments from 2013 at around £500 a week for couple and lone parent households and around £350 a week for single adult households, so that no workless family can receive more in welfare than median after tax earnings for working households. All Disability Living Allowance claimants, War Widows, and working families claiming the working tax credit will be exempt from the cap;
- time limit contributory Employment and Support Allowance for those in the Work Related Activity Group to one year, to improve work incentives while protecting the most severely disabled and those with the lowest incomes, saving £2 billion a year by 2014-15; and
- take a radical new approach to tackling benefit fraud and error, working across departments, to ensure that significant reductions in illegitimate welfare payments are realised across both DWP and HMRC.

1.62 The Government will introduce a number of further measures to control the costs of the welfare and tax credits system. Full details are set out in Box 2.6.

Key benefits for older people

1.63 The Government is preserving key benefits for older and vulnerable people, including Winter Fuel Payments, free eye tests, prescriptions and TV licences. In addition, the Government will:

- allocate £2 billion of additional funding a year by 2014-15 to social care to support some of the most vulnerable people in society;
- make permanent the temporary increases to Cold Weather Payments provided in the past two winters, at a cost of £50 million a year, so that eligible households receive £25 for each seven day cold spell recorded or forecast where they live; and
- protect the statutory entitlement for concessionary bus travel, ensuring that older people can maintain greater freedom and independence.

[12] DWP and HMRC administrative data.

Child poverty

1.64 The Government asked Frank Field MP to lead an independent review on poverty in June, and will consider his recommendations on potential action to tackle the underlying causes of poverty and enhance life chances, which are due by the end of the year.

1.65 While awaiting the conclusions of Frank Field's review, the Government will use some of the savings from withdrawing Child Benefit from families with a higher rate taxpayer to fund significant above indexation increases in the Child Tax Credit. This is better targeted on low income families, worth £30 in 2011-12 and £50 in 2012-13, and will ensure the Spending Review will have no measurable impact on child poverty in the next two years.[13] The Government's longer term strategy for tackling child poverty will be set out by the end of March 2011, and will take into account the conclusions of the Frank Field review.

1.66 In determining its spending priorities, the Government has taken into account its responsibilities under the Child Poverty Act 2010 and the Warm Homes and Energy Conservation Act 2000. The Government will publish its first child poverty strategy before the end of March 2011. The Government considers the Spending Review to be consistent with its obligations in relation to fuel poverty.

Social housing

1.67 The Government believes social housing is an important element in fostering community cohesion and supporting households in housing need. The number of social rented properties fell between 1997 and 2009. The result has been rising housing waiting lists combined with growing numbers of workless households trapped in dependency on subsidised housing. In the 1970s, 11 per cent of households in social housing had no earner, by 2003-04, this had risen to 69 per cent.

1.68 The Government wants to make social housing more responsive, flexible and fair so that more people can access social housing in ways that better reflect their needs. In future, social housing will more effectively reflect individual needs and changing circumstances. Social landlords will be able to offer a growing proportion of new social tenants new intermediate rental contracts that are more flexible, at rent levels between current market and social rents. The terms of existing social tenancies and their rent levels remain unchanged. This is fair to households and reduces costs for taxpayers.

1.69 Taken together with continuing, but more modest, capital investment in social housing, this will allow the Government to deliver up to 150,000 new affordable homes over the Spending Review period.

Everyone making a fair contribution

1.70 The Government will continue to support the most vulnerable while ensuring all sections of society who are able to do so contribute to deficit reduction. To do this and ensure that the choices made are fair, the Government has for the first time undertaken and published a distributional analysis of the impacts of the entire fiscal consolidation. While the estimates have limitations and continue to be refined, they show that those in most need will continue to receive the most support from the state in absolute terms and, relative to the amount they consume, those on the highest incomes will experience the greatest reduction in the services they receive. The estimates also show that after combining the impact of tax, benefits and public service spending changes, the highest quintile of earners will make the greatest contribution towards reducing the deficit as a percentage of their income and benefits in kind.

[13] Estimate calculated using HM Treasury's tax and benefit microsimulation model, based on 2007-08 Family Resource Survey data projected to 2011-12 and 2012-13.

1.71 Like all parts of the UK, the devolved administrations will bear a share of the cuts, although they will not be disproportionately affected. The reduction to their overall budget will be slightly better than the UK average, and they are free to allocate their budgets in line with local needs and priorities.

1.72 To ensure deficit reduction is implemented fairly, the Government will:

- take further action to combat tax fraud, evasion and avoidance with over £900 million of funding to raise an estimated £7 billion a year of extra tax revenue by 2014-15, while also making 25 per cent efficiency savings to focus funds on frontline tax collection;
- consult on major reforms to the legal aid system, targeting funding on those who need it most; and
- protect essential investment, which will mean that some public transport fare increases will be unavoidable. This will include raising rail fares where necessary.

The banking sector

1.73 The Government wants the UK to be one of the most competitive global centres for financial services. But it is only right that during difficult times, steps are taken to ensure that the banks make a full and fair contribution. The Government is taking forward its announcement in the Budget of a Bank Levy as an additional and permanent tax on the industry and will publish draft legislation on 21 October, following a consultation with industry over the Summer. Final legislation will follow before the end of the year. Once fully in place, the Government expects the Levy to generate around £2.5 billion of annual revenues, higher in net terms than the previous government's payroll tax. Working with international partners, the Government is committed to taking forward work on a Financial Activities Tax on profits and remuneration.

1.74 To ensure that banks make a fair and growing contribution to the public finances as the economy recovers, the Government will continue to monitor tax receipts from the banking sector. As part of this, the Government expects the banking sector to comply with both the letter and the spirit of the law and not to engage in or promote tax avoidance. The Government has asked HMRC to work with the banking sector to secure their adoption and implementation of the Code of Practice on Taxation by the end of November.

1.75 The Government welcomes that the British Bankers' Association and six major banks have announced a package of industry led measures to improve access to finance for businesses as a response to the Finance Green Paper. This includes a £1.5 billion Business Growth Fund to provide capital to established and growing small businesses, which is an important first step welcomed by the Government.

Box 1.4: Equalities

In line with its commitment to fairness and promoting social mobility, the Government has looked closely at the impact of the Spending Review on different groups in society. In particular, the Government has ensured that the potential impacts on the equality of men and women, people from ethnic minorities and people with disabilities have been taken into account as far as possible in decision making.

The majority of the decisions that have been made at this Spending Review concern departmental budgets and not all the details of those departmental budgets have been set out. As they are, all parts of Government will consider the impacts on groups covered by equalities legislation. This means that it is not possible at this stage to quantify the full impact of the Spending Review on these groups.

However, the Government has, where possible, made assessments of the impact of changes in departmental spending on women, people from ethnic minorities and people with disabilities. Where possible, the Government has sought to limit the effects on these groups by protecting key areas of spending.

The protection of the health budget will benefit people with disabilities. Those groups more likely to need social care such as elderly women or those with disabilities will also benefit from the £2 billion a year of additional resources given to social care by 2014-15 within the health and local government budgets. There are also likely to be benefits for these groups as a result of the reforms being made to these services, such as increased personalisation in social care.

The education spending settlement will also benefit disadvantaged groups. The pupil premium and the extension of the childcare offer for disadvantaged two year olds is aimed at supporting children from the lowest income households to reach their potential and narrow the attainment gap. The extension of childcare services also plays an important role in facilitating women's access to employment opportunities and may have a disproportionate impact on improving women's quality of life. Ethnic minority groups and children with a disability are disproportionately represented in the poorest quintile. The confirmed increase in funding for short breaks for disabled children will help to improve the quality of life for children and young people with disabilities and their families. Lone parent households will also benefit from the above indexation increase to the child element of the Child Tax Credit that was announced in the June Budget, and the further increases announced in the Spending Review.

Reductions in spending on welfare will affect different groups in different ways. Where possible, mitigating actions have been taken to protect the most vulnerable, consistent with meeting the policy aims of encouraging work and reducing the deficit. For example, time limiting of the Employment and Support Allowance does not apply to the most severely disabled or those claiming it on an income related basis, and the cap limiting the total amount of benefits that can be paid to a household does not apply to people in receipt of Disability Living Allowance.

In the longer term, tackling the deficit will help to maintain the key public services on which the most vulnerable depend.

Reform

1.76 The Spending Review is underpinned by a radical programme of public service reform. The reforms will change the way services are delivered by redistributing power away from central government and enabling sustainable, long term improvements in services. Underlying this is the belief that:

- the changes needed to tackle the social and economic challenges facing the UK today are too numerous and too complex to be solved by a one size fits all approach from central government;
- new and innovative ideas are required to address these challenges, and these ideas are most likely to come from service users, community groups and employees; and
- central government micro-management can stifle the innovation needed to instigate real change.

1.77 The Spending Review sets a clear direction for reform, focused on shifting power away from central government to the local level – to citizens, communities, and independent providers, so they can play a greater role in shaping services. Together these principles help build a society where everyone plays their part – the Big Society. This reform agenda is underpinned by the Coalition principles of freedom and responsibility:

- increasing freedom by localising power and funding, and changing how decisions are made. Local people, communities, and frontline staff understand their local priorities and problems better than central government. This makes them better placed to allocate scarce resources and shape services. The Government's reforms will dramatically simplify funding to local authorities, put spending power in the hands of people, shift accountability to the local level and cut away regulations and red tape; and
- sharing responsibility by changing the role of the state and how services are provided. The Government cannot tackle the challenges ahead on its own. Increasing the diversity of provision helps share that responsibility across society, and drives innovation and efficiency by increasing competition and consumer choice. The Government will pay and tender for more services by results rather than be the default provider; look to set proportions of specific services that should be delivered by non-state providers including voluntary groups; and introduce new rights for communities to run services, own assets and for public service workers to form cooperatives.

1.78 The Government will consult on these reforms and publish a White Paper early next year to tackle barriers and enable change.

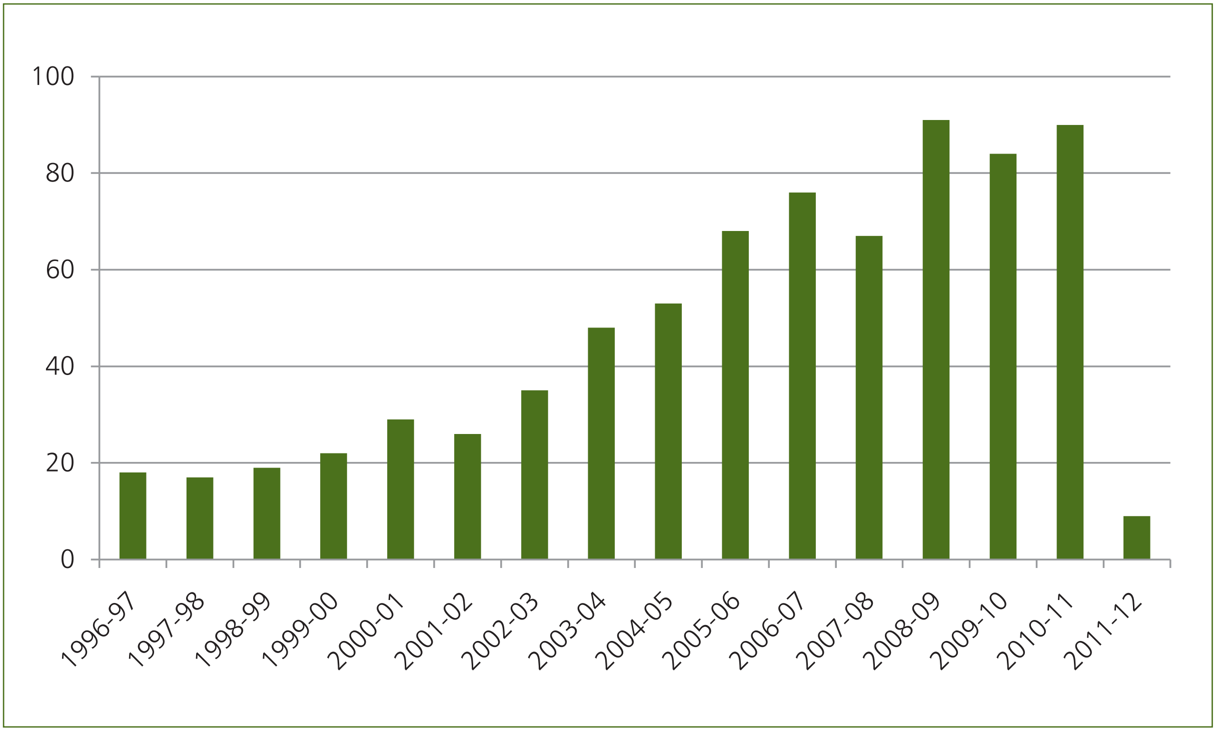
Localising power and funding

1.79 The last decade has seen a significant increase in burdens, regulations and targets that has stifled innovation and freedom. The Government will give powers back to local areas, frontline staff, communities, and individuals.

1.80 In order to free up local areas, funding to local authorities and delivery bodies will be radically simplified, giving them greater choice over how to use their money to meet the needs of local people. The Spending Review announces that:

- the Government will devolve significant financial control to local authorities. Ringfencing of all local government revenue grants will end from 2011-12, except simplified schools grants and a new public health grant. The number of separate core grants, set out in Chart 1.4, will be radically reduced from over 90 to fewer than 10, excluding schools, police and fire. More than £4 billion of revenue grants will be rolled into formula grant;
- community budgets will be established in 16 local areas to pool departmental budgets for families with complex needs, and rolled out to all local areas over the Spending Review period; and
- the New Homes Bonus will give local authorities clear financial incentives to ensure that local communities benefit from new housing and economic development in their areas.

Chart 1.4: Number of separate core revenue grants to local government



1.81 This builds on measures already announced, including reducing the number of regulatory bodies and giving local authorities a universal power of competence. New powers to implement Tax Increment Financing will also be detailed in a forthcoming White Paper on local growth.

1.82 Reducing burdens and regulations will free up frontline professionals to respond to user needs. Abolishing self evaluation processes for teachers will eliminate around 100 pages of form filling for every school, so that teachers can spend more time teaching. Similarly, removing 'stop and account' recording and other reporting requirements will allow the police to spend more time on the front line. Building on this, the Spending Review announces that:

- in further education, colleges and other training organisations will benefit from reduced bureaucracy, including a single contact point for funding and far fewer central targets; and
- in central government, there will be an overhaul of procurement processes and the financial appraisal of suppliers will now be coordinated from one point.

1.83 This builds on measures already announced to increase freedoms for public sector professionals, including making GPs responsible for commissioning NHS services, and giving schools greater freedom to pay good teachers more and deal with poor performance.

1.84 The Spending Review also shifts power directly into people's hands by giving them more control over the money spent on public services. The Spending Review announces that the Government will look to significantly extend the use of personal budgets across a range of service areas including special education needs, support for children with disabilities, long term health conditions and adult social care.

1.85 These reforms supplement the Government's measures to increase transparency and make services properly accountable to local people, including: the new Transparency Framework for central government; publication of central and local government spending and contracts online; directly elected police and crime commissioners; and, subject to local referenda, new elected mayors in the 12 largest cities.

Box 1.5: Departmental business plans

In line with its values of freedom and responsibility, the Government has abolished the top down performance management system of Public Service Agreements.

The Government will replace these traditional bureaucratic levers with a system of democratic accountability. The new Transparency Framework will provide information on performance and spending to allow the public to form their own view of whether they are getting value for money.

Later this year, each Government department will publish a business plan setting out the details of its reform plans, including its:

- vision and priorities to 2014-15;
- structural reform plan, including actions and deadlines for implementing reforms over the next two years; and
- contribution to transparency, including the key indicators against which it will publish data to show the cost and impact of public services and departmental activities. This section will be published for consultation to ensure that the Government agrees the most relevant and robust indicators in time for the beginning of the Spending Review period in April 2011.

Sharing responsibility

1.86 A fairer and more responsible society requires greater freedom so all can play their part. The Spending Review builds on measures to provide new opportunities, new rights and new resources to enable all parts of society to play a larger role in providing services and strengthening community life.

1.87 The Government believes that while it should continue to fund important services, it does not have to be the default provider. This stifles competition and innovation and crowds out civil society. To address this and create new opportunities for non-state providers, the Spending Review announces that:

- the Government will pay and tender for more services by results, rather than be the default provider of services. The use of simple tariffs and more innovative payment mechanisms will be explored in new areas, including community health services, processing services, prisons and probation and children's centres. This builds on measures already announced to implement payment by results in welfare to work, mental health and offender rehabilitation services; and
- the Government will look at setting proportions of appropriate services across the public sector that should be delivered by independent providers, such as the voluntary and community sectors and social and private enterprises. This approach will be explored in adult social care, early years, community health services, pathology services, youth services, court and tribunal services, and early interventions for the neediest families.

1.88 These announcements to increase opportunities for all independent providers build on the Government's existing commitments to extend specific rights to communities, citizens and employees to run and own services. These include:

- giving communities due notice and the right to buy or run public assets and services that might otherwise close or face significant reductions;

- developing a new right for public sector workers to form employee-owned cooperatives and mutuals to take over the services they deliver which is being taken forward across departments; and

- giving parents, teachers or community groups the right to bid to start new schools.

1.89 As well as new opportunities and rights, the Government will assist new providers by improving access to the resources they need. The Spending Review announces that:

- the Government will direct around £470 million over the Spending Review period to support capacity building in the voluntary and community sector, including an endowment fund to assist local voluntary and community organisations. As part of this, the Government will provide funds to pilot the National Citizen Service and establish a Transition Fund of £100 million to provide short term support for voluntary sector organisations providing public services. The Big Society Bank will bring in private sector funding in addition to receiving all funding available to England from dormant accounts;

- to bring external investment and expertise into the public sector and share the responsibility and risks of reform, the Government will work with the financial sector, the voluntary sector and community groups to develop innovative equity investment opportunities in public services; and

- cultural institutions such as museums will be allowed to use money raised independently more flexibly and establish trust arrangements that enable them to generate more funding from private sources. In addition, the Government will undertake a review of ways to increase philanthropic giving, and will announce further details later this year.

1.90 To maintain the momentum for reform, and consult further with public sector staff, citizens and communities on how to deliver better services, the Government will publish a reform White Paper early in the New Year. This will set out further detail on the policies announced above.

Box 1.6: Strategic Defence and Security Review

The Strategic Defence and Security Review (SDSR) concluded on 19 October, setting out a hard headed reappraisal of Britain's foreign policy and security objectives, and the resources necessary to meet them.

The SDSR sets out in its National Security Risk Assessment a clear prioritisation of the threats Britain faces: from global terror, cyber threats, natural hazards, international military crises should these materialise, and from the low probability but high impact risk of a large scale attack by another state. To deal with these risks while allowing for growing uncertainty about longer term threats, the Review chose an 'adaptable' strategic posture.

New Chinook helicopters, new armoured vehicles, enhanced communications equipment and new strategic lift aircraft will make the Army more mobile, and more flexible. The RAF will be based around a fleet of two of the most capable fighter jets anywhere in the world: a modernised Typhoon fleet fully capable of air-to-air and air-to-ground missions; and the Joint Strike Fighter, the world's most advanced multi-role combat jet. This fast jet fleet will be complemented by a growing fleet of Unmanned Air Vehicles in both combat and reconnaissance roles. For the Navy there will be a fleet of the most capable, nuclear powered hunter-killer submarines in the world; and six Type 45 Destroyers, the most advanced multi-role destroyer there is. The Government will complete the construction of two aircraft carriers and fit a catapult to the operational carrier to enable it to fly a version of the Joint Strike Fighter with a longer range and able to carry more weapons. This will allow it to operate in tandem with the United States and French navies.

At the same time, in order to focus resources on current and emerging threats, a number of older or non-essential capabilities such as Harrier jets, Nimrod MRA4 maritime patrol aircraft and some frigates are being reduced or withdrawn.

Having concluded the value for money review of Trident, the Government will proceed with the programme to renew the submarine-based nuclear deterrent. The recommendations of the review are expected to result in reductions in expenditure of at least £750 million over the Spending Review period and around £3.2 billion over the next ten years.

Britain's Armed Forces are the backbone of its national security. But their efforts have to be complemented by other tools including:

- strong international relationships;
- a global network of diplomatic missions;
- an international development programme that contributes to national security goals;
- effective capabilities for tackling crime, illegal immigration, terrorism and civil emergencies at home; and
- the resilience to absorb and recover from natural disasters and attacks.

Across all these areas, the SDSR funds the capabilities needed, while identifying efficiencies that will allow them to be delivered at lower cost.

The Government currently uses around a fifth of overseas aid (£1.9 billion) to support fragile and conflict affected states, and tackle the relevant drivers of instability. By 2014-15, the Government will increase this proportion to 30 per cent, with a particular focus on Afghanistan and Pakistan, to support both poverty reduction and Britain's national security.

The Security and Intelligence Agencies will continue their crucial work in protecting Britain's national security from threats such as terrorism. To meet the real and growing threat identified in the SDSR from cyber attack, this settlement contains new funding of £650 million over the Spending Review period for a cross government programme to enhance Britain's cyber security.

Value for money

1.91 The reforms to public services set out above will help improve value for money and protect frontline services. The Spending Review also sets out further specific reforms to improve value for money across the public sector. These are targeted on:

- reforming public sector pay and pensions to ensure a fair arrangement for both taxpayers and public employees;
- disposing of surplus assets; and
- ensuring that remaining central government functions are delivered as efficiently as possible.

Workforce reform

1.92 The reforms set out above will give public sector workers more freedom and responsibility to shape and improve the services they deliver. However, the public sector paybill accounts for around half of departmental resource spending, so the Spending Review will inevitably have an impact on the public sector workforce.

1.93 The overall value of the public sector reward package, including pension provision, has remained generous in recent years. During the recession, pay fell by more than one per cent on average in the private sector, while public sector workers saw a pay increase of over four per cent on average. In the June Budget, the Government announced a two year pay freeze from 2011-12 for public sector workers earning over £21,000, with those earning less than this receiving at least £250 in each year. In addition, the Government asked Will Hutton to lead a Review of Fair Pay in the Public Sector, making recommendations on tackling disparities between the lowest and highest paid in public sector organisations. The Review will publish its interim findings in late November.

1.94 The Independent Public Service Pensions Commission (IPSPC) led by John Hutton published an interim report on 7 October. The report highlights the importance of providing good quality pensions to public servants, rejects a race to the bottom in pension provision, but concludes that there is a clear rationale for public servants to make a greater contribution if their pensions are to remain fair to taxpayers and employees, and affordable for the country. The Government accepts these conclusions. In response to the Commission's interim recommendations, the Government will:

- commit to continue with a form of defined benefit pension;
- await Lord Hutton's final recommendation before determining the nature of that benefit and the precise level of progressive contribution required;
- carry out a public consultation on the discount rate used to set contribution rates in the public service pension schemes;
- implement progressive changes to the level of employee contributions that lead to an additional saving of £1.8 billion a year by 2014-15, equivalent to three percentage points on average, to be phased in from April 2012;
- exempt the armed forces from this increase in employee contributions;
- launch a consultation on the Fair Deal policy, which Lord Hutton noted can create a barrier to the plurality of public service provision and make it more difficult to achieve innovation, to report by Summer 2011, informed by Lord Hutton's final recommendations on structural reform; and
- seek engagement with all stakeholders including trade unions.

1.95 At the Budget, the OBR forecast a reduction in general government employment of 490,000 by 2014-15.[14] The OBR will release a revised forecast on 29 November. Individual employers in the public sector will determine the workforce implications of spending settlements in their areas. However, the Government will support public sector employers to do everything that they can to mitigate the impact of this by:

- protecting jobs through the pay and pensions reforms set out above;
- ensuring that staff in different public sector workforces and each region will have visibility of suitable vacancies, and encouraging local employers to explore voluntary deals with staff on pay restraint or reduced hours in order to save jobs;
- actively monitoring potential workforce reductions, enabling decisions to be taken in time to mitigate localised impacts; and
- through Jobcentre Plus, supporting employees facing redundancy in making a successful transition to the private sector.

Asset sales

1.96 The Government has made substantial progress on the key asset sales and commercialisations announced in the June Budget including, for example, introducing enabling legislation for Royal Mail on 13 October. Decisions on how and whether to proceed with sales of the Government's interests in NATS and the Student Loan Book, and a decision on the future of the Tote, will be taken by Budget 2011. The Government intends to hold an auction in 2011-12 for 800MHz and 2.6GHz spectrum, suitable for delivering the next generation of mobile broadband.

1.97 The Spending Review announces that at least 500MHz of public sector spectrum below 5GHz will be released over the next ten years for new mobile communication uses, including mobile broadband.

1.98 In order to support deficit reduction, the Government will continue to look into the potential sale of other public sector assets, including property holdings, which could operate more sensibly and efficiently in, and with, the private sector.

Smaller central government

1.99 The Government's reforms to devolve power away from the centre means that central government will become smaller and more strategic. The Spending Review confirms that:

- the administrative budgets of central Whitehall and its Arms Length Bodies (ALBs) will be reduced by 34 per cent over the Spending Review period, saving £5.9 billion[15] a year by 2014-15 so that resources can be focused on frontline services; and
- the number of ALBs across Government will be radically reduced. 118 will be merged and a further 192 will cease to be public bodies with their functions either being brought back into Government, devolved or abolished.

1.100 Central government functions will be subject to a tough new efficiency regime, monitored and supported by the new Efficiency and Reform Group in the Cabinet Office. Part of this work will address the key findings of Sir Philip Green's Review,[16] ensuring that the Government is using its scale as effectively as possible in common areas of spending such as procurement, property and major contracts. The Efficiency and Reform Group have already

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[14] Office for Budget Responsibility, June 2010 http://budgetresponsibility.independent.gov.uk/d/employment_forecast_300610.pdf. Figures are for General Government headcount, and exclude public corporations.
[15] Compared to 2010-11 baselines increasing in real terms.
[16] *Efficiency Review by Sir Philip Green – key findings and recommendations*, 11 October 2010, http://download.cabinetoffice.gov.uk/efficiency/sirphilipgreenreview.pdf

made good progress, their contract renegotiations are expected to deliver £800 million of savings this year.

1.101 In some areas, the Government's approach will include mandating a single central process; in others, departments will be required to follow a specific set of steps or go through a tighter approval process. Key measures include:

- central mandation of commodity procurement, with centrally negotiated deals available to local government as well;
- stronger scrutiny processes for major projects to assure they will deliver on time and to budget, as well as for other key areas like advertising and ICT infrastructure;
- making better use of experts across Whitehall to challenge administrative processes and make them more efficient; and
- a more coordinated approach to supplier management to ensure government acts as a single client with key suppliers.

1.102 The Government is introducing a comprehensive package of reforms to improve transparency, accountability and financial management in central government departments. These include:

- implementing a programme to strengthen financial discipline across government, enhancing the role of departments' senior finance professionals;
- strengthening Boards through independent Non Executive Directors;
- reforming the Civil Service including to incentivise better use of resources;
- publishing the Treasury spending database, COINS, in June; and
- improving the transparency of financial information including publication of individual items of spending over £25,000, all new contracts, tenders over £10,000, and the pay of senior civil servants.

1.103 The Government will introduce a new system of national property controls across the central civil and operational estate. In addition, the Government believes there could be substantial gains to be made from a more coordinated approach to property asset management in the public sector. It has established a Government Property Unit, which as a first step will set up property vehicles for the Central London and Bristol office estate from 2011-12.

1.104 The Government will use digital means, such as online and digital telephony, as the default option to deliver more of its services. As a first step, this will be done for the initial application for Job Seekers' Allowance, new business tax registration with HMRC and key Driver's Licence services. The Government will also rationalise its face to face and telephone services, including using Post Offices as a front office.

2 Departmental settlements

Department for Education

Table 2.1: Department for Education

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	50.8	51.2	52.1	52.9	53.9
Capital DEL	7.6	4.9	4.2	3.3	3.4
Total DEL	**58.4**	**56.1**	**56.3**	**56.2**	**57.2**
Departmental AME	2.2	2.7	3.3	3.7	4.2

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.1 The Department for Education (DfE) settlement includes:

- **real terms increases of 0.1 per cent in each year of the Spending Review for the 5 to 16s school budget, including a £2.5 billion pupil premium. Underlying per pupil funding will be maintained in cash terms;**
- **extending 15 hours a week of early years education and care to all disadvantaged two year olds from 2012-13, and maintaining the universal entitlement to 15 hours for all three and four year olds implemented by the Coalition Government;**
- **Sure Start services will be maintained in cash terms, 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;**
- **£15.8 billion of capital funding over the Spending Review period. The Government will rebuild or refurbish over 600 schools from the Building Schools for the Future (BSF) and Academies programme. The decision to end BSF will allow new capital to be focused on meeting demographic pressures and addressing maintenance needs; and**
- **overall resource savings in DfE's non-schools budget of 12 per cent in real terms by 2014-15, contributing to overall DfE savings of 3 per cent in real terms. This will be achieved by cutting administration and back office costs, reducing 16 to 19s unit costs, focusing the support currently provided by Education Maintenance Allowances (EMAs) on the most disadvantaged children in the context of raising the participation age to 18, and rationalising and ending centrally directed programmes for children, young people and families.**

Fairness

2.2 The education settlement supports a comprehensive approach to narrowing the attainment gap and improving social mobility throughout ages 2 to 19. For early years, the Spending Review will extend 15 hours a week of free early education and care to all disadvantaged two year olds – helping these children develop and be ready for school. At the same time, Sure Start services will be protected in cash terms and will be refocused on their original purpose, targeting early intervention on families who need the most support. This builds on a continued universal entitlement to 15 hours of free early education per week for all three and four year olds. The Government will introduce a new and simplified early intervention grant. The Spending Review also announces a new national campaign to support and help turn around the lives of families with multiple problems, improving outcomes and reducing costs to welfare and public services. The campaign will be underpinned by local Community Budgets focused on family intervention – enabling a more flexible and integrated approach to delivering the help these families need.

2.3 For school age children, a new £2.5 billion pupil premium will support the educational development of the most disadvantaged, and provide incentives for good schools to take on pupils from poorer backgrounds. The premium forms a key part of the overall settlement for schools – with total funding growing at 0.1 per cent in real terms in each year of the Spending Review, and underlying per pupil funding for the schools system protected in cash terms.

2.4 For 16 to 19 learning, the Spending Review will support further increases in participation, while moving towards raising the participation age to 18 by 2015. This will reduce the proportion of young people not in education, employment or training and ensure more young people from all backgrounds have the support they need to fulfil their potential in the labour market and improve social mobility.

Reform

2.5 Reforms to the education system at each stage will ensure parents have far greater choice and schools and providers have more freedom to innovate.

2.6 In early years, reforms to Sure Start children's centres will encourage more community providers to enter the market, including through payment by results. The independent review of the Early Years Foundation Stage will help ensure that unnecessary bureaucracy and over-regulation of early years providers are identified and removed. The introduction of an early years single funding formula will also make the market more fair and equitable.

2.7 Parents, teachers and community groups will be supported to establish Free Schools outside of local authority control to improve standards for all children, regardless of their background. In addition, teachers will be given greater freedom from bureaucratic burdens to use their professional judgement to meet the needs of their pupils. Head teachers will have increased flexibility over their budgets, including through simpler, fairer and more transparent funding streams.

2.8 The Government has made tough choices to secure overall resource savings in DfE's non-schools budgets of 12 per cent, including through a 33 per cent reduction in central administration and from abolishing five Arms Length Bodies. In the context of raising the participation age, there will be unit cost reductions in the 16 to 19 participation budget and the support currently provided by Education Maintenance Allowances will be focused on the most disadvantaged children, saving around £0.5 billion. Further savings have been secured through efficiencies in Sure Start, as well as rationalising and ending centrally directed programmes for children, young people and families. In addition, within the schools budget, procurement and back office savings will allow at least £1 billion to be invested directly in frontline teaching while the public sector pay freeze will free up an additional £1.1 billion.

2.9 The capital settlement will allow £15.8 billion over the Spending Review period to maintain the schools estate. Although reduced by 60 per cent over the Spending Review period, the decision to end Building Schools for the Future (BSF) will allow new capital spending to be focused on providing new places in areas of severe demographic pressure and addressing essential maintenance needs. The Government will meet the commitment to rebuild or refurbish over 600 schools from the BSF and Academies programme.

Department of Health

Table 2.2: NHS (Health)

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	98.7	101.5	104.0	106.9	109.8
Capital DEL	5.1	4.4	4.4	4.4	4.6
Total DEL	**103.8**	**105.9**	**108.4**	**111.4**	**114.4**
Departmental AME	-2.0	-1.6	-1.0	-0.4	0.2

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.10 The Department of Health (DH) settlement includes:

- **real terms increases in overall NHS funding in each year to meet the Government's commitment on health spending, with total spending growing by 0.4 per cent over the Spending Review period;**
- **an additional £1 billion a year for social care through the NHS, as part of an overall £2 billion a year of additional funding to support social care by 2014-15;**
- **a new cancer drugs fund of up to £200 million a year;**
- **expanding access to psychological therapies;**
- **continued funding for priority hospital schemes, including St Helier, Royal Oldham and West Cumberland; and**
- **capital spending remaining higher in real terms than it has been on average over the last three Spending Review periods.**

Reform

2.11 The settlement increases overall NHS funding in real terms every year, with a total increase of 0.4 per cent in real terms over the Spending Review period – meeting the Government's commitment on health spending. The NHS will need to make efficiencies to deal with rising demand from an ageing population and the increased costs of new technology. The NHS has already committed to make up to £20 billion of annual efficiency savings by the end of the Spending Review period through the Quality, Innovation, Productivity and Prevention (QIPP) programme. To ensure spending is focused on priorities, some programmes announced by the previous government but not yet implemented will not be taken forward. This includes free prescriptions for people with long term conditions, the right to one-to-one nursing for cancer patients, and the target of a one week wait for cancer diagnostics.

2.12 Productivity in the NHS fell over the last decade. To ensure value for money, the reforms set out in *Equity and Excellence – Liberating the NHS*[1] will give GPs power to commission the care their patients need and promote patient choice and provider competition to deliver a higher quality and more efficient health service. The Department will abolish Primary Care Trusts and Strategic Health Authorities by 2013, removing whole tiers of NHS management, saving money and empowering frontline professionals. The Government will also ring fence funding for public health to improve the health of the whole population, with a premium for tackling pockets of particular ill health and reducing health inequalities. Greater diversity and efficiency of providers will be encouraged, with patients able to use independent providers paid for by the NHS. The number of Arms Length Bodies will also be reduced from 18 to a maximum of 10 by 2013.

[1] *Equity and Excellence – Liberating the NHS*, Department of Health, July 2010
http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_117353

2.13 Overall, the capital budget will remain higher in real terms in each year than the average yearly spend over the last three Spending Review periods. The budget also reflects a number of factors, including falls in IT spending in line with the extra £0.7 billion of savings identified over the Spending Review period in the NHS National Programme for IT. Spending will be prioritised on essential maintenance and equipment as well as priority hospital schemes including St Helier, Royal Oldham and West Cumberland.

Fairness

2.14 Social care plays a vital role in helping to keep people healthy and independent. It also supports some of the most vulnerable people in society. The Spending Review therefore makes available sufficient resources for local authorities so that they do not need to reduce access to services, and can fund new approaches that improve outcomes for those receiving social care:

- the current DH grant to local authorities for social care, the Personal Social Services grant, will increase by £1 billion pounds in real terms by 2014-15. To reduce administrative burdens and increase flexibility for local authorities, this grant will be merged into local government formula grant; and
- the NHS will set aside funding growing to £1 billion by 2014-15 within their settlement to fund new ways of providing services, including reablement services provided by the NHS. This will help to break down the long-standing barriers between health and social care, leading to benefits across the health and social care system.

2.15 This funding will also enable local authorities to deliver the necessary efficiency savings, reforms and service improvements that will release savings and put social care services on a stable footing for the entire Spending Review period. The table below shows the resources contained in the NHS and local government settlements.

Table 2.3: Funds to Support Social Care

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Additional funds in NHS RDEL	0.0	0.8	0.9	1.1	1.0
PSS Grant being merged into LG RDEL	1.3	1.9	2.3	2.4	2.4

2.16 The Government recognises that more needs to be done to ensure that the social care system is fair and sustainable in the long term and has asked Andrew Dilnot to lead a commission on the funding of long term care, due to report in July 2011.

Department for Transport

Table 2.4: Department for Transport

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	5.1	5.3	5.0	5.0	4.4
Capital DEL	7.7	7.7	8.1	7.5	7.5
Total DEL	**12.8**	**13.0**	**13.1**	**12.5**	**12.0**
Departmental AME	0.3	0.3	0.3	0.3	0.3

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.17 The Department for Transport (DfT) settlement includes:

- **£14 billion of funding to Network Rail to support maintenance and investment, including major improvements to the East Coast Mainline, station upgrades**

at Birmingham New Street and network improvements in Yorkshire, around Manchester and the Barry to Cardiff corridor;

- **over £10 billion for maintenance and investment in key road and local transport schemes across the country, including work on the A11, M4/M5, M1, Midland Metro, Tyne and Wear Metro and construction of the Mersey Gateway;**
- **funding to enable Crossrail to go ahead, and to support £6 billion of capital expenditure by Transport for London (TfL) to maintain and upgrade the London Underground network;**
- **increases to the cap on regulated rail fares to three per cent above RPI for three years from 2012 to support investment in new rolling stock, and, subject to consultation, increases to the charges on Dartford Crossing alongside accelerating plans to improve traffic flow;**
- **protection of the statutory entitlement for concessionary bus travel; and**
- **overall resource savings of 21 per cent by 2014-15 through a rigorous focus on efficiency, cutting waste, stopping lower value spend and improving governance and accountability. Bus subsidy will be reduced by 20 per cent and local government resource grants by 28 per cent.**

Supporting long term growth

2.18 Investments of high economic value are protected across all types of transport. The capital allocation has been relatively protected; in 2014-15 DfT capital investment will be higher in real terms than in 2005-06. This includes over £10 billion over the Spending Review period for maintenance and investment in key road and local transport schemes,[2] including widening the remaining section of the A11 to provide a continuous dual carriageway link between Norwich and the M11, improving the junction between the M4 and M5, easing congestion on the M1 between junctions 28 and 31, route extension and capacity increases on the Midland Metro, upgrades to the Tyne and Wear Metro and constructing a new suspension bridge over the River Mersey[3] (the Mersey Gateway) while seeking significant cost reductions across the programme.

2.19 The settlement also includes £14 billion of funding over the Spending Review period to Network Rail to support maintenance and investment, including major improvements to the East Coast Mainline, station upgrades at Birmingham New Street and network improvements in Yorkshire, around Manchester and the Barry to Cardiff corridor. Funding is also confirmed for Network Rail to invest in delivering faster journey times in the North West. In addition, the Government is supporting investment to improve journey reliability on Great Western Main Line services to Wales. Final decisions will be made by DfT after the Spending Review on the replacement of the UK's inter-city high speed trains.

2.20 Funding will be made available to enable Crossrail to go ahead, providing an additional 10 per cent capacity to London's rail network while continuing to seek efficiency savings to maximise value for money. £6 billion over the Spending Review period will be spent on maintaining and upgrading the London Underground network, supporting growth by improving reliability and reducing travel times.

2.21 The Government is proceeding with its plans to deliver a new high speed rail network, and will bring forward legislation during this Parliament to allow construction to proceed.

2.22 Key projects that support the Government's climate change commitment are also protected. This includes an incentive scheme offering up to £5,000 towards the cost of a new ultra-low emission vehicle from January 2011 and supporting electric car charging infrastructure.

[2] Subject to completion of the appropriate statutory processes.
[3] Subject to completion of the appropriate statutory processes.

2.23 The Government's intention is to proceed with PFI projects which will deliver sustained improvements in highways maintenance in Sheffield, Hounslow and the Isle of Wight and extend the Nottingham tram network with two new lines. As resources are tight, the Government needs to ensure that every pound is spent to the maximum benefit. The Government will therefore be urgently working with the four local authorities to establish how these projects can be delivered affordably, in order to deliver the much needed benefits.

Fairness

2.24 The reforms outlined in this settlement will improve efficiency and cut wasteful spending, minimising the impact of savings on transport users as far as possible.

2.25 To protect essential investment, some fare increases will be unavoidable. This will include raising the cap on regulated rail fares to three per cent above RPI for three years from 2012, which will support investment in rolling stock, and, subject to consultation, raising the charges on the Dartford Crossing, alongside accelerating plans to improve traffic flow. The statutory entitlement for concessionary bus travel has been protected, ensuring that older people can maintain greater freedom and independence.

Reform

2.26 The Department for Transport and its Arms Length Bodies will reduce administrative costs by one third over the Spending Review period, saving over £100 million a year by 2014-15.

2.27 Network Rail has already been tasked by the Office of Rail Regulation to deliver 21 per cent efficiency savings over the current regulatory period to 2013-14. Sir Roy McNulty's review of the value for money of the railways will examine the overall cost structure of all elements of the railway sector and identify options for improving value for money for passengers and the taxpayer, while continuing to expand capacity as necessary and drive up passenger satisfaction. The report will be presented to the Secretary of State for Transport in Spring 2011.

2.28 Greater accountability at both local and national levels will drive improvements in costs, efficiency and value for money. For example:

- better management of contracts across the Highways Agency (HA) will save over £240 million by 2014-15. In addition, an expert monitoring group, benchmarking HA performance, will support efficiency improvements with a full review to ensure that HA structure and governance give assurance of value for money;
- reducing bus subsidies paid directly to operators by 20 percent will save over £300 million by 2014-15. The Government will also work with bus operators and local government to examine smarter ways of administering this subsidy to get better results for passengers and taxpayers;
- strengthened scrutiny and transparency for Transport for London's investment programme, including benchmarking of London Underground costs, will help to support the efficiency and economy of these programmes; and
- local government resource grants will be reduced by 28 per cent, while the Government will simplify the number of grants to give local authorities more control and greater flexibility in how they spend this money.

Box 2.1: Regional Growth

At the Budget the Government announced that it would set up a Regional Growth Fund. The fund will be worth £1.4 billion over three years, and will support projects with significant potential for private sector economic growth and employment, supporting in particular those areas and communities that are currently too dependent on the public sector. Lord Heseltine will chair a panel to assess funding bids made by the private sector and public-private partnerships, including from local enterprise partnerships. There will be several rounds of bids, with the results of the first round announced before the end of 2010-11. The fund will be made up as follows:

Table 2.5 Regional Growth Fund

	£ million				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	–	215	205	420	–
Capital DEL	–	280	300	–	–
TOTAL	–	495	505	420	–

[1] *In this table, Resource DEL excludes depreciation and AME excludes non cash items.*

The Government will also reform the way it delivers European Regional Development Funding in England, linking it wherever possible with the Regional Growth Fund to maximise impact.

Local enterprise partnerships (LEPs) will help businesses and local councils work together to grow the local private sector, tackle major barriers to growth and develop shared strategies for the local economy. The partnerships will be free from the bureaucratic burden of national targets and imposed regional planning frameworks. The local growth White Paper to be published shortly will provide more detail on LEPs, planning reform, incentives and regional economic development policy.

Department for Communities and Local Government

Table 2.6: Department for Communities and Local Government

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	2.2	2.0	1.7	1.6	1.2
Capital DEL	6.8	3.3	2.3	1.8	2.0
Total DEL	9.0	5.3	4.0	3.4	3.2
Departmental AME	0.6	0.7	0.7	0.7	0.7

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.29 The Department for Communities and Local Government (CLG) settlement includes:

- **a programme to deliver up to 150,000 new affordable homes over the Spending Review period accompanied by major reforms;**
- **reforming the council housing finance system so local authorities have greater control over their own finances, and can reinvest to meet local housing need;**
- **reforming the planning system and introducing a New Homes Bonus to support economic growth and increase housing supply;**

- **reducing CLG's overall resource budget by 33 per cent in real terms by 2014-15, through reducing the size of the department and its Arms Length Bodies. Alongside this, the department is devolving over £1.6 billion to local government. This means the reduction in the department's resource budget will be 51 per cent in real terms by 2014-15; and**

- **a 13 per cent real terms reduction to fire resource expenditure. This will require the Fire and Rescue Service to modernise, increase efficiency and deliver workforce reform.**

Supporting long term growth

2.30 To encourage private sector enterprise and economic growth, CLG will contribute £890 million to the £1.4 billion Regional Growth Fund by 2013-14 (see Box 2.1). The fund will invest in projects and programmes with significant potential for growth and employment, and will in particular support those areas and communities that are currently too dependent on the public sector to make the transition to sustainable private sector led growth and prosperity. Alongside this, CLG will make more effective use of European Regional Development Funding and reinvest revenue from its assets.

2.31 The Government will increase housing supply by reforming the planning system so it is more efficient, effective and supportive of economic development. In addition, it will introduce a New Homes Bonus that will directly reward and incentivise local authorities and local communities to be supportive of housing growth, equivalent to matching the additional council tax from every new home for each of the following six years. It will also reduce the total regulatory burden on the house building industry over the Spending Review period.

Fairness

2.32 Funding for services that support the most vulnerable in society will be relatively protected, with provision for Disabled Facilities Grants rising with inflation and over £6 billion funding for the Supporting People programme over the Spending Review period. Also, reform of the council housing finance system will build in the resources needed to carry out future disabled housing adaptations required in the council housing stock.

Reform

2.33 Social housing will be reformed to provide a more tailored response to individual need at lower cost (see Box 2.2). Investment alongside this reform will deliver up to 150,000 new affordable homes by 2014-15. Meanwhile, investment via the Decent Homes programme will continue to improve the existing social housing stock.

2.34 CLG's overall resource budget will reduce by 33 per cent in real terms over the period. Within this, CLG will devolve £1.6 billion to local government. This means the reduction in the department's resource budget will be 51 per cent in real terms by 2014-15.

2.35 CLG will make reductions of 42 per cent in real terms on administration costs. This will be achieved through the closure of the Government Office network, reducing the number of Arms Length Bodies by 17 and reducing the size of the department. As a result of this settlement, programmes including the Working Neighbourhoods Fund, Growth Area Funding and the Thames Gateway programme will end, in order to rationalise funding streams, make savings and take a more disciplined approach to Government spending.

2.36 Fire resource expenditure will reduce by 13 per cent in real terms over the Spending Review period. Within this, central government grants to local authorities will be reduced by 25 per cent over the period. To achieve this level of savings, the Fire and Rescue Service will need to modernise, increase efficiency and deliver workforce reform. It will be for individual fire authorities to decide how to make these savings.

Box 2.2: Affordable Housing Reform

The Government believes social housing is an important element in fostering community cohesion and supporting households in housing need. The number of social rented properties fell between 1997 and 2009. The result has been rising housing waiting lists combined with growing numbers of workless households trapped in dependency on subsidised housing. In the 1970s, 11 per cent of households in social housing had no earner; by 2003-04, this had risen to 69 per cent.

The Government wants to make social housing more responsive, flexible and fair so that more people can access social housing in ways that better reflect their needs. In future, social housing will more effectively reflect individual needs and changing circumstances. Social landlords will be able to offer a growing proportion of new social tenants new intermediate rental contracts that are more flexible, at rent levels between current market and social rents. The terms of existing social tenancies and their rent levels remain unchanged. This is fair to households and reduces costs for taxpayers.

Taken together with continuing, but more modest, capital investment in social housing, this will allow the Government to deliver up to 150,000 new affordable homes over the Spending Review period.

Local Government

Table 2.7: Local Government

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[12]	28.5	26.1	24.4	24.2	22.9
Capital DEL	0.0	0.0	0.0	0.0	0.0
Total DEL	**28.5**	**26.1**	**24.4**	**24.2**	**22.9**
Departmental AME	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2 LG DEL includes funding for police and fire authorities. Excluding these contributions LG DEL for councils will fall by 28 per cent

2.37 The Local Government settlement includes:

- **significant devolution of financial control to councils, by removing ringfencing around all revenue grants except simplified schools grants and a new public health grant, the number of separate core grants simplified from over 90 to fewer than 10, and more than £4 billion of grants rolled into formula grant;**
- **funding in all four years of the Spending Review to enable local authorities to freeze their council tax in 2011-12;**
- **an additional £1 billion a year for Personal Social Services grant, which is rolled into local government formula grant as part of an overall £2 billion a year of additional funding to support social care by 2014-15;**
- **the first community budgets in 16 local areas, to pool departmental budgets for families with complex needs, from 2011-12;**
- **overall resource savings in Local Government DEL to councils of 28 per cent over the four years;**

- **the Spending Review settlement means that while on average, central government funding to councils decreases by around 26 per cent over the next four years, councils' budgets decrease by around 14 per cent once the OBR's projections for council tax are taken into account; and**
- **retaining the important flexibility of prudential borrowing, with a forecast that total capital expenditure by local authorities will fall by 30 per cent by 2014-15.**

Supporting long term growth

2.38 Individual councils make their own capital investment decisions to support local priorities and drive growth. The Government is maintaining the important flexibility of prudential borrowing, to enable councils and their partners to invest in key local priorities. The Spending Review requires tough choices, and so that loans to local authorities better reflect the availability of capital funding, interest rates on Public Works Loan Board (PWLB) loans have been increased to 1 per cent above UK government gilts. The amount of self-financed capital expenditure is forecast to fall by 17 per cent over the four years.

2.39 Capital funding from all departments to councils will fall by around 45 per cent over the Spending Review period. The Government will prioritise capital investment on areas of greatest economic value, such as high value local transport. Further detail on Tax Increment Financing and the future incentives and planning powers open to local authorities to support growth will be provided in a White Paper on local growth later this year.

Fairness

2.40 The June Budget announced the Government's intention to work with local authorities to freeze council tax in 2011-12. The Spending Review now announces that local authorities who freeze their council tax next year will have the resultant loss to their tax base funded at a rate of 2.5 per cent in each year of the Spending Review period.

2.41 To enable local government to support social care, providing support for some of the most vulnerable people in society, the Government is providing £1 billion of additional funding through the NHS budget to support joint working between the NHS and councils. In addition, Personal Social Services grant for social care has been increased by £1 billion to £2.4 billion a year by 2014-15, rolled into formula grant.

2.42 The Government will reduce spending on Council Tax Benefit by 10 per cent and localise it from 2013-14 while protecting the most vulnerable. In addition, the Government will consider providing greater flexibilities to local authorities to manage pressures on council tax from the same date.

Reform

2.43 Local authorities will have to make significant savings over the Spending Review period, in line with other parts of the public sector. Many councils are already fundamentally reviewing their roles and services, including using greater personalisation and increasing delivery through the voluntary and community sector. In 2011-12, £200 million will be available to councils to accelerate reforms of local services.

2.44 To support these reforms, the Government will devolve significant financial control to councils. Ring fencing of all revenue grants will end from 2011-12, except simplified school grants and a new public health grant; the number of separate core grants will be radically reduced from over 90 to less than 10, including a single non ring-fenced Early Intervention Grant worth around £2 billion by 14-15; and more than £4 billion of revenue grants will be rolled into formula grant.

2.45 The first community budgets will be run in 16 local areas from April 2011 for families with complex needs. These will pool departmental budgets for local public service partnerships to work together more effectively, help improve outcomes, and reduce duplication and waste. All places may be able to operate these approaches from 2013-14. Councils and their partners will also have greater flexibility to work across boundaries in health, policing, worklessness and child poverty.

2.46 The Government is ending the previous top-down performance framework for councils. Local authorities and their partners will be able to cease reporting any of the 4,700 local area agreement targets, and those that are kept will not be monitored by Government. In implementing the new Transparency Framework, the Government will work with councils to reduce the amount of data local government is asked to collect by central government, and develop a single, comprehensive list, to be reviewed annually.

Table 2.8: Split of LG Resource DEL

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	28.5	26.1	24.4	24.2	22.9
o/w funding for formula grant	28.0	25.0	23.4	23.2	21.9
o/w council tax freeze	0.0	0.7	0.7	0.7	0.7
o/w other	0.5	0.5	0.4	0.4	0.4

1 In this table, Resource DEL excludes depreciation

Department for Business, Innovation and Skills

Table 2.9: Department for Business, Innovation and Skills

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	16.7	16.5	15.6	14.7	13.7
Capital DEL	1.8	1.2	1.1	0.8	1.0
Total DEL	**18.6**	**17.6**	**16.7**	**15.5**	**14.6**
Departmental AME	**1.5**	**1.4**	**1.4**	**1.4**	**1.4**

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.47 The Business, Innovation and Skills (BIS) settlement includes:

- **ensuring the UK remains a world leader in science and research by continuing support for the highest value scientific research, maintaining the science budget in cash terms over the Spending Review period with resource spending of £4.6 billion a year;**
- **£150 million from the Government over the Spending Review period to leverage significant equity investment and guaranteed lending to small businesses;**
- **continued commitment to maintain and modernise the Post Office Network. This will transform the network and protect community post offices, building a sustainable future Post Office Ltd;**
- **increasing funding by £250 million a year by 2014-15 on new adult apprenticeships, compared with the previous government's level of spending;**
- **major reform of the higher education sector to shift a greater proportion of funding from the taxpayer to the individuals who benefit, with extra support for those from the poorest backgrounds; and**

- **overall resource savings of 25 per cent, comprising 40 per cent savings from reform of higher education and an average 16 per cent savings from the other areas of the BIS budget, with relative protection for science and key elements of adult skills funding.**

Supporting long term growth

2.48 To support long term growth the Government will prioritise support for world class science, maintaining resource spending in cash terms. The Government will also increase the efficiency of the science budget, saving £324 million a year by 2014-15. These efficiency savings will be reinvested in science. The Government will also take measures to increase the focus on excellence, and will spend £4.6 billion in each of the Spending Review years. A ring-fence will be maintained by BIS to ensure continuity of investment in science and research. The cutting-edge Diamond Synchrotron facility in Oxfordshire will receive £69 million of public funding over the Spending Review period in partnership with the Wellcome Trust.

2.49 The Department of Health will increase spending on health research in real terms. Within this, additional funding will be made available to support the translation of research into practical applications, including the development of new medicines and therapies. To complement this, BIS will ensure that Medical Research Council expenditure is maintained in real terms. 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.

2.50 To develop the sector's contribution to economic growth, the Government will reform the Higher Education Innovation Fund to incentivise universities to increase commercial interaction between the research base and business.

2.51 The Government will provide £200 million a year by 2014-15 to support manufacturing and business development, with a focus on supporting potential high growth companies and the commercialisation of technologies, including funding for an elite network of Research and Development intensive technology and innovation centres.

2.52 To ensure that small businesses have access to the finance they need for working capital and for growth, additional lending will be made available over the Spending Review period through a continuation of the Enterprise Finance Guarantee scheme. Funding will also be made available to provide equity finance for small businesses with growth potential.

2.53 In recognition of the high economic returns to adult apprenticeships, the Government will boost spending on adult apprenticeships by up to £250 million a year by the end of the Spending Review period, relative to the level of spending inherited from the previous Government.

Fairness

2.54 The Government will continue to support basic skills provision in order to ensure individuals are given the chance to gain basic numeracy and literacy skills. Spending on Adult Community Learning will be protected and reformed.

2.55 Reforms to the higher education system will include support for students from low income backgrounds. Further information is included in Box 2.3.

Reform

2.56 In order to focus spending on frontline services, BIS will reduce spending on administration by £400 million a year by 2014-15. The number of Arms Length Bodies will be reduced from 57 to 33, with 9 still under consideration. This includes abolishing Regional Development Agencies as announced in the Budget, saving £1.5 billion a year by 2014-15, some of which will be reinvested elsewhere.

2.57 Colleges will be freed from bureaucracy by simplifying the funding system, streamlining Arms Length Bodies and abolishing central targets. The Government will also improve the quality of information and advice for students, including through the development of an all-age careers service. Alongside these greater freedoms and reductions in bureaucracy, colleges will be expected to make savings including through greater efficiencies and pay restraint.

2.58 The Government will significantly lower the overall cost of the further education system by abolishing Train to Gain and by reducing spending on budgets which do not directly support learners. Meanwhile, the balance of funding will be shifted from the taxpayer towards the individuals and employers who benefit, including though the introduction of student loans, and by exploring mechanisms to increase employer contributions such as voluntary training levies.

2.59 Adopting the Wakeham Review recommendations, and applying them across research council institutes and universities, will deliver efficiencies worth £162 million a year by 2014-15.

Box 2.3: Reform to Higher Education and Further Education funding

Following Lord Browne's review of higher education funding and student finance[a], the Government will bring forward wide ranging reforms in order to support a world class higher education sector. This will place the funding system on a more sustainable financial footing and provide support to individuals from low income backgrounds.

Subject to Parliamentary consent, universities will be able to increase graduate contributions supported by government loans, with a broadly offsetting reduction in the teaching grant, from the 2012-13 Academic Year.

A new system of graduate contributions will ensure that students will only pay once they have graduated and can afford to do so. The graduate contribution system will be progressive and protect the lowest earning graduates.

The Government will establish a new National Scholarship fund to support students from disadvantaged backgrounds, reaching £150 million a year by 2014-15.

The Government will bring forward legislation as soon as Parliamentary time allows and publish a White Paper during the winter.

Meanwhile, in further education the Government will also introduce reforms to create a better balance of funding between the state and the individual who benefits from training and who can afford to pay. This includes taking tough choices, such as removing the entitlement to free training for a first full level 2 qualification for those over 25. Further education students aged 24 and over studying for a level 3 qualification (A-level equivalent) will be asked to pay fees. These students will be supported by the offer of a government-backed loan where repayments will be dependent on the learner's income, protecting those with lower earnings.

[a] *Securing a Sustainable Future for Higher Education; An Independent Review of Higher Education Funding and Studies Finance*. October 2010. http://hereview.independent.gov.uk/hereview

Home Office

Table 2.10: Home Office

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	9.3	8.9	8.5	8.1	7.8
Capital DEL	0.8	0.5	0.5	0.4	0.5
Total DEL	**10.1**	**9.4**	**9.0**	**8.4**	**8.3**
Departmental AME	**0.7**	**0.8**	**0.9**	**0.9**	**1.0**
Police[2]	**9.7**	**9.3**	**8.8**	**8.7**	**8.5**

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2 Police includes Home Office, CLG and Welsh Assembly Government funding.

2.60 The Home Office settlement includes:

- **support for major policing reforms, including democratically elected Police and Crime Commissioners;**
- **police resource funding reducing by 14 per cent in real terms by 2014-15, taking into account central government funding and the OBR's council tax precept forecast. Savings will be made from efficiencies in IT, procurement and back office functions, as terms and conditions of service are reviewed, allowing the police to focus on addressing the crime and disorder concerns of local communities;**
- **£1.8 billion of capital investment over the Spending Review period to protect the UK's border, tackle crime, and help protect against terrorism;**
- **supporting the delivery of a new National Crime Agency; and**
- **overall resource savings for the Home Office of 23 per cent in real terms by 2014-15, including through reducing consultancy spend, overheads and the size of the workforce; and reprioritising resources to the front line. This includes 30 per cent real terms savings to the department's non-police funding.**

Reform

2.61 Central government police funding will reduce by 20 per cent in real terms by 2014-15. If Police Authorities were to choose to increase precept (part of council tax) at the level forecast by the Office of Budget Responsibility, the Spending Review settlement means that on average police budgets would see real terms reductions of 14 per cent over the next four years.

2.62 In order to protect key priorities, police forces will need to focus on driving out wasteful spending, reducing back office costs and improving productivity. The Government will support this by ending central targets and cutting out time wasting bureaucracy that hampers police operations. It will also introduce better technology, and modernise pay and conditions. These measures will help make policing more effective while saving taxpayers' money.

2.63 Police forces will become more accountable to the communities they serve, through the introduction of directly elected Police and Crime Commissioners. This will ensure that police forces focus their resources on tackling the crime and anti-social behaviour which matters most to local communities.

2.64 The settlement enables the UK to tackle the terrorist threat and deliver a safe and secure Olympic Games in 2012. Counter-terrorism specific policing will be prioritised within overall police funding.

2.65 A new National Crime Agency will help combat organised crime, protect the UK's borders and provide services that are best delivered at a national level. The National Policing Improvement Agency will be abolished and some of its functions will be absorbed into the National Crime Agency, saving at least £50 million.

2.66 The UK Border Agency (UKBA) will save around £500 million by reducing the costs of support functions, estates and IT. It will raise productivity in frontline operations by investing in technology, immigration and asylum case working and border control. UKBA will also derive better value from its spending with commercial suppliers.

Fairness

2.67 Migration fees will continue to be set above the cost of processing applications, ensuring that those visiting and working in the UK pay a contribution to managing the border. The fees will strike the right balance between maintaining secure border controls and ensuring the UK continues to attract migrants and visitors who make a valued contribution to the UK economy.

Ministry of Justice

Table 2.11: Ministry of Justice

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL	8.3	8.1	7.7	7.4	7.0
Capital DEL	0.6	0.4	0.3	0.3	0.3
Total DEL	8.9	8.6	8.0	7.6	7.3
Departmental AME	0.0	0.0	0.0	0.0	0.0

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.68 The Ministry of Justice settlement includes:

- **delivering better value for money from the justice system, while punishing the guilty and reducing reoffending;**
- **plans to reform legal aid, targeting funding on those who need it most;**
- **capital funding for maintaining the prisons estate, for essential new capacity and for key invest to save projects; and**
- **overall resource savings of 23 per cent in real terms by 2014-15, through reforming sentencing to stem the unsustainable rise in the prison population, using innovative approaches to reduce reoffending and resolving more disputes out of court.**

Reform

2.69 The Government will reform the sentencing framework so that it both punishes the guilty and rehabilitates offenders more effectively. These reforms will stem the unsustainable rise in the UK prison population. Proposals will be published in a Green Paper, and will include the use of tough community penalties where they are more effective than short prison sentences; using restorative justice; and paying private and voluntary providers by results for delivering reductions in reoffending. The Government will also take forward proposals to invest in mental health liaison services at police stations and courts to intervene at an early stage, diverting mentally ill offenders away from the justice system and into treatment. This will be rolled out nationally over the Spending Review period, subject to business case approval.

2.70 The Ministry of Justice will work with the Home Office, Law Officers' Departments and other partners to streamline and reform the criminal justice system. The Government is already consulting on proposals to close 157 under-utilised courts, and will reform the court system to provide a more efficient service, using mediation and alternatives to court where possible. This will provide effective access to justice, while ensuring that court is seen as a last resort, rather than the default option.

2.71 Alongside these reforms, the Ministry of Justice will reduce its back office and administration costs by 33 per cent. This will include savings from reducing the number of staff at headquarters, rationalising its London estate from 18 buildings to 4 and implementing shared corporate services across the department.

2.72 Capital savings of 50 per cent will be made over the Spending Review period, with investment focused on essential maintenance and on projects that produce sustainable savings for the department. The settlement provides sufficient capital funding to maintain the existing prison estate and to fund essential new build projects. Plans for a 1,500 place new-for-old prison will be deferred to the next Spending Review period, and spending on new IT and court projects will be limited to essential capacity.

Fairness

2.73 The Government will consult on major reforms to the legal aid system to deliver access to justice at lower cost to the taxpayer. This will involve taking tough choices about the types of case that should receive public funding, and focusing support on those who need it most. The reforms will also increase competition in the market and reform remuneration for providers to ensure the legal aid system is effective and affordable.

Law Officers' Departments

Table 2.12: Law Officers' Departments

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	0.7	0.6	0.6	0.6	0.6
Capital DEL	0.0	0.0	0.0	0.0	0.0
Total DEL	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
Departmental AME	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.74 The Law Officers' Departments (LODs) settlement includes:

- **funding for the Departments to continue their core work, but at significantly reduced cost; and**
- **overall resource savings of 24 per cent in real terms over the Spending Review period, including through major reforms of the Crown Prosecution Service.**

2.75 The settlement covers the Crown Prosecution Service (CPS), Serious Fraud Office, and the Treasury Solicitors Department, including funding for the Attorney General's Office, the National Fraud Authority and Her Majesty's Inspectorate of CPS. The three main departments will all deliver 25 per cent savings in real terms by 2014-15.

2.76 The CPS accounts for over 90 per cent of the LODs' budget. The CPS will radically reduce its cost base while maintaining and strengthening its capability to protect the public by robust and effective prosecutions. The cost of headquarters will reduce significantly, with all its functions exceeding benchmarks for corporate service delivery. There will be more devolution and management lines will be streamlined so local prosecutors are empowered to respond to local concerns and consistently deliver core quality standards.

2.77 The LODs will also work with the Ministry of Justice and the Home Office to deliver wider reforms such as the more efficient use of courts.

Ministry of Defence

Table 2.13: Ministry of Defence

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	24.3	24.9	25.2	24.9	24.7
Capital DEL	8.6	8.9	9.1	9.2	8.7
Total DEL	**32.9**	**33.8**	**34.4**	**34.1**	**33.5**
Departmental AME	2.8	2.8	3.1	3.3	3.4

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.78 The Ministry of Defence (MOD) settlement includes:

- **new helicopters, strategic airlift, new armoured vehicles, and enhanced Special Forces capabilities to make the Army more flexible and mobile;**
- **fleets of new hunter-killer submarines and multi role destroyers for the Navy alongside the new Queen Elizabeth class aircraft carriers;**
- **for the RAF, new fifth generation Joint Strike Fighters to complement the already world beating Typhoon;**
- **provision for proceeding with the Trident based independent nuclear deterrent, in line with the results of the Trident value for money review which has identified cost reductions of £750 million over the Spending Review period;**
- **reductions in older or non essential capabilities such as the Harrier jet, Nimrod maritime reconnaissance aircraft and some frigates;**
- **non frontline savings of at least £4.3 billion across the Spending Review period;**
- **provision for the doubling of the Operational Allowance for servicemen and women on operations, as announced in June;**
- **overall savings in resource spending of 8 per cent in real terms by 2014-15; and**
- **on top of this settlement, the Government will fully fund the net additional costs of Military Operations in Afghanistan from the Treasury Reserve. For the Spending Review period, the Special Reserve has been forecast at £4 billion, £3.8 billion, £3.8 billion, and £3.5 billion.**

2.79 The Strategic Defence and Security Review (SDSR) published on 19 October sets out that the MOD will do everything necessary to ensure the success of the mission in Afghanistan, while also planning to provide an adaptable military capability for the long term. Under these plans, new Chinook helicopters, new armoured vehicles, enhanced communications equipment and new strategic lift aircraft will support the Army. The RAF will be based around a fleet of two of the most capable fighter jets anywhere in the world: a modernised Typhoon fleet fully capable of air-to-air and air-to-ground missions; and the Joint Strike Fighter, the world's most advanced multi-role combat jet. This fast jet fleet will be complemented by a growing fleet of Unmanned Air Vehicles in both combat and reconnaissance roles. For the Navy there will be a fleet of the most capable, nuclear powered hunter-killer submarines anywhere in the world; and six Type 45 Destroyers, the most advanced multi role destroyer there is.

2.80 The SDSR confirms that the Government will complete the construction of two aircraft carriers and fit a catapult to the operational carrier to enable it to fly a version of the Joint Strike Fighter with a longer range and able to carry more weapons. This will allow it to operate in tandem with the United States and French navies. At the same time, in order to focus resources on current and emerging threats, a number of older or non essential capabilities such as Harrier jets, Nimrod MRA4 maritime patrol aircraft and some frigates are being reduced or withdrawn.

2.81 The Government will maintain a continuous submarine based deterrent and begin the work of replacing its existing submarines. The Government will therefore proceed with the renewal of Trident and the submarine replacement programme, incorporating the savings and changes set out in the SDSR. The first investment decision (Initial Gate) will be approved, and the next phase of the project commenced, by the end of this year. The second investment decision (Main Gate), finalising the detailed acquisition plans, design and number of submarines, will be taken around 2016. The recommendations of the Trident value for money review are expected to result in reductions in expenditure of at least £750 million over the Spending Review period and some £3.2 billion over the next 10 years.

2.82 In order to protect the capabilities core to the 'adaptable' posture agreed in the SDSR, the MOD will make at least a 25 per cent reduction in civilian and military non frontline organisations by 2014-15. A major component of this will be a one third reduction in the MOD's Administrative Costs Regime (ACR). In order to focus funding on the frontline, the MOD is revising its ACR to encompass better the running costs of the Department, which may result in changes to the figures in Annex A of the SDSR. The MOD is committed to saving at least one third of this new baseline by 2014-15, which will deliver at least £800 million of savings.

2.83 Further savings and efficiencies include:

- rationalisation of the defence estate, including the sale of surplus land and buildings, likely to generate running cost savings across the estate of up to £350 million per year by 2014-15;
- sales of the telecommunications spectrum and corporate assets (including the Defence Support Group and the Marchwood Sea Mounting Centre), likely to raise in excess of £500 million over the Spending Review period;
- efficiencies and improvements in military training;
- savings from contract renegotiations with the defence industry;
- annual savings of over £300 million per year by 2014-15 from civilian and military allowances; and
- reductions in commodity spend.

2.84 By focusing on maintaining key operational capabilities and by cutting out waste and inefficiency in the defence budget, the MOD will make at least £4.3 billion of non frontline savings over the Spending Review period.

Foreign and Commonwealth Office

Table 2.14: Foreign and Commonwealth Office

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	1.4	1.5	1.5	1.4	1.2
Capital DEL	0.2	0.1	0.1	0.1	0.1
Total DEL	**1.6**	**1.6**	**1.6**	**1.5**	**1.3**
Departmental AME	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.85 The Foreign and Commonwealth Office (FCO) settlement includes:

- **funding to maintain a global network that works for British people and British interests abroad, including championing British companies to win exports and secure jobs at home;**
- **a new Foreign Currency Mechanism to enable the FCO to better manage exchange rate pressures; and**
- **overall resource savings of 24 per cent in real terms, including from cuts to non essential programmes, a new centralised corporate service function and reductions to the global FCO workforce.**

Promoting long term growth

2.86 In line with the SDSR, the FCO will continue to promote British interests overseas: supporting UK businesses and citizens around the world; building prosperity by promoting trade and investment; and safeguarding Britain's national security by countering terrorism and working to reduce conflict. The BBC World Service and the British Council will continue to make a major contribution to the UK's international presence.

2.87 The FCO will increase its focus on championing British companies to win exports and secure jobs at home, working closely with UK Trade and Investment (UKTI) to increase business links and market information for UK exporters and to attract significant investment into the UK.

2.88 The settlement also provides for an increase in the FCO's Official Development Assistance (ODA) spending to help meet the Government's commitment to dedicate 0.7 per cent of Gross National Income to ODA.

Reform

2.89 The FCO has been working with other UK Government departments with operations overseas to find ways of reducing overall costs. For example, FCO and DFID are working to co-locate in countries where they are both represented but do not share the same estate.

2.90 As part of the settlement, the British Council and BBC World Service will find savings by finding greater efficiencies and enhancing the commercialisation of their operations. However, both bodies will have the resources to retain effective global operations. From 2013-14, responsibility for funding the BBC World Service will transfer to the BBC.

2.91 A new Foreign Currency Mechanism will be introduced to enable the FCO to better manage exchange rate pressures and allow for better planning.

2.92 The FCO will continue to simplify, standardise, and streamline their back office, including: cutting the cost of management and support work through increased outsourcing; increased roles being carried out by local staff; and consolidating functions regionally or in the UK. These reforms in total should drive tens of millions of pounds in savings to refocus on the frontline.

2.93 Much of the FCO's capital allocation will be spent on overseas security: constructing or protecting the buildings in which staff operate, the vehicles in which they travel, or other hardware to protect staff from the high terrorist threat that many face daily.

2.94 A separate settlement has been reached for the Conflict Pool, a tri-Departmental fund with DFID and the MOD to help prevent conflict and support post conflict stabilisation, which will grow from £229 million in 2010-11 to £309 million in 2014-15. The peacekeeping budget, which pays the UK contribution to multilateral actions abroad, will continue to receive funding annually from the Reserve.

Department for International Development

Table 2.15: Department for International Development (DFID)

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	6.3	6.7	7.2	9.4	9.4
Capital DEL	1.6	1.4	1.6	1.9	2.0
TOTAL DEL	7.8	8.1	8.8	11.3	11.5
Departmental AME	0.1	0.1	0.1	0.1	0.1

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

Table 2.16: UK ODA

	£ billion				
	2010	2011	2012	2013	2014
Total UK ODA	8.4	8.7	9.1	12.0	12.6
ODA/GNI (%)	0.56%	0.56%	0.56%	0.70%	0.70%

2.95 The Department for International Development (DFID) settlement includes:

- **an increase in Official Development Assistance (ODA) to 0.7 per cent of Gross National Income (GNI) from 2013, in line with the UK's international commitments to help the very poorest in the world; and**
- **a new Independent Commission on Aid Impact to assess all ODA spending, ensuring effectiveness and best value for money in all programmes.**

Fairness

2.96 Development spending represents value for money in tackling global issues such as climate change, disease, economic stability, migration, conflict and promoting global prosperity. It is therefore not only the right thing to do but also in the UK's national interest.

2.97 The Department's priorities will be to:

- honour international aid commitments to support the Millennium Development Goals. This includes spending up to £500 million per year on tackling malaria by 2014-15, aiming to halve malaria related deaths in ten of the worst affected countries. DFID will also deliver improvements in child and maternal health - the Goals which are currently the furthest off track;
- make British international development policy more focused on boosting economic growth and wealth creation - vital at a time when more than 80 per cent of poverty reduction is accounted for by long term growth in average incomes;
- improve the coordination and performance of British development policy in conflict countries, in line with the SDSR, with particular focus on Afghanistan and Pakistan. 30 per cent of ODA will be used to support fragile and conflict affected states by 2014-15; and
- drive urgent action to tackle climate change by supporting low carbon growth and adaptation in developing countries. International Climate Finance will be £2.9 billion over the Spending Review period, funded by DFID, DECC, and DEFRA.

2.98 DFID will change the way it delivers in order to achieve maximum impact with the aid the UK provides, and to further improve transparency and accountability. A new Independent Commission on Aid Impact will assess all ODA spending to ensure best value for money and effectiveness in all programmes. DFID will become a leaner organisation with a focus on managing aid efficiently and effectively, by significantly reducing back office costs. Running costs will account for only 2 per cent of total spending by 2015, compared to a global donor average of 4 per cent[4]. In order to redirect money from low priority projects to programmes combating poverty, DFID will phase out the low value Development Awareness Fund. In order to focus aid where it is needed most, DFID will close programmes in China and Russia.

Department of Energy and Climate Change

Table 2.17: Department of Energy and Climate Change

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	1.2	1.5	1.4	1.3	1.0
Capital DEL	1.7	1.5	2.0	2.2	2.7
Total DEL	**2.9**	**3.0**	**3.4**	**3.5**	**3.7**
Departmental AME	0.0	-0.1	-0.1	-0.1	-0.1

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.99 The Department of Energy and Climate Change (DECC) settlement includes:

- **up to £1 billion of investment to create one of the world's first commercial scale carbon capture and storage (CCS) demonstration plants;**
- **over £200 million for the development of low carbon technologies including offshore wind technology and manufacturing at port sites;**
- **increased incentives for low carbon energy generation through the Renewable Heat Incentive;**
- **enabling households to improve the energy efficiency of their homes at no upfront cost through a Green Deal; and**
- **overall savings within DECC's core resource budget of 30 per cent in real terms by 2014-15, including through cutting lower value projects and focusing on key priorities.**

Supporting long term growth

2.100 The Spending Review settlement enables DECC to prioritise spending in areas where it can have most impact. For example, new low carbon technologies have the potential to contribute to growth as well as to emissions reductions.

2.101 The Government remains committed to the Coalition Agreement policy of providing public funding for four CCS demonstration plants. Up to £1 billion will be invested in one of the world's first commercial scale CCS demonstration projects at a power station. This funding is provided from general public spending and so does not require the introduction of a levy on electricity supplies for CCS. The Government will decide whether to introduce such a levy or to fund future demonstrations from general public spending once work has been completed in Spring 2011 on the reform of the climate change levy to provide support to the carbon price. The Government plans to publish this consultation in November.

[4] *OECD Creditor Reporting System database*, August 2010; refers to 2009 figures.

2.102 Over £200 million will be invested in manufacturing facilities at port sites and technology innovation to support the development of offshore wind power and energy efficiency technology for buildings.

2.103 This spending will be matched by reforms to increase the efficiency and effectiveness of public interventions. The Renewable Heat Incentive, funded from AME, will be introduced from 2011-12. This will ensure the UK meets its 2020 renewable energy targets while making efficiency savings of 20 per cent, or £105 million a year, by 2014-15 compared with the previous government's plans.

2.104 The efficiency of Feed-In Tariffs will be improved at the next formal review, rebalancing them in favour of more cost effective carbon abatement technologies. This will save £40 million in 2014-15. Support for lower value innovation and technology projects will also be reduced, saving £70 million a year on average over the Spending Review period.

2.105 Spending on ODA is protected, helping developing countries adapt to the impacts of climate change and move onto a lower emissions growth path.

Reform

2.106 DECC will develop innovative ways of working with the private sector, acting as an enabler rather than the default provider. Households will be able to improve the energy efficiency of their house at no upfront cost, repaying through the savings they make on their energy bills, through a Green Deal. Extra support to reduce energy bills and help improve heating and insulation will be provided by energy companies to combat fuel poverty. This will allow the Warm Front public spending programme to be phased out over time, saving £345 million by 2013-14.

2.107 The Government is committed to focusing the available resources where they will be most effective in tackling the problems underlying fuel poverty. The Government therefore intends to initiate an independent review of the fuel poverty target and definition before the end of the year.

2.108 The CRC Energy Efficiency scheme will be simplified to reduce the burden on businesses, with the first allowance sales for 2011-12 emissions now taking place in 2012 rather than 2011. Revenues from allowance sales totalling £1 billion a year by 2014-15 will be used to support the public finances, including spending on the environment, rather than recycled to participants. Further decisions on allowance sales are a matter for the Budget process.

2.109 The Department will continue to manage Britain's historic energy liabilities, including capital funding for the Nuclear Decommissioning Authority (NDA). Spending on the highest hazards at sites such as Sellafield has been protected. As the NDA's commercial income is forecast to reduce, government spending on energy liabilities will increase over the Spending Review period. However, the NDA will undertake a significant programme of reform to achieve savings and to become more efficient and effective.

Box 2.4: Environmental Impacts of the Spending Review

The Spending Review ensures that the UK can meet environmental goals, including a 34 per cent reduction in greenhouse gas emissions by 2020 compared to 1990 levels, while cutting the costs of doing so. It moves away from a top down approach, instead freeing individuals, communities and businesses to make choices which protect the environment.

In particular, the Spending Review:

- commits to £1 billion of funding from DEL and additional significant proceeds from asset sales to capitalise a UK wide Green Investment Bank, subject to a final design which meets the tests of effectiveness, affordability, and transparency. This will aim to provide financial interventions to unlock significant new private investment in green infrastructure projects, such as offshore wind farms;
- puts the UK on track to meet statutory carbon budgets by supporting action on renewables; reducing transport emissions by increasing the uptake of electric vehicles through grants to reduce their upfront costs and the roll out of charging infrastructure; and giving households access to energy efficiency measures at no upfront cost through a Green Deal;
- supports key enablers of long term decarbonisation of the economy, including investment of up to £1 billion in a commercial scale carbon capture and storage demonstration project, investing in wind turbine research and development, and upgrading offshore wind manufacturing facilities at ports sites;
- underpins the Government's commitment to obtain 15 per cent of energy from renewables by 2020, by supporting the roll out of large and small scale technologies, including renewable heat, and prioritising the most cost effective technologies;
- enhances UK leadership on climate change, supporting ambitious global action by providing £2.9 billion of international climate finance to help developing countries pursue low carbon growth and adapt to the impacts of climate change; and
- protects the natural environment at lower cost and supports adaptation to UK climatic conditions by continuing to invest in flood defences.

UK greenhouse gas emissions are driven by factors such as energy prices and growth, as well as environment policy. Effective monitoring of both emissions and policy implementation is therefore essential to manage uncertainty and allow the Government to reduce costs while delivering environmental objectives.

While the Spending Review sets spending totals, the exact environmental impact will depend on the decisions of individual departments. The Government will set out in full how each department's policies will contribute to meeting emission reduction targets in a government wide carbon plan in 2011.

Department for Environment Food and Rural Affairs

Table 2.18: Department for Environment, Food and Rural Affairs

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	2.3	2.2	2.1	2.0	1.8
Capital DEL	0.6	0.4	0.4	0.4	0.4
Total DEL	**2.9**	**2.6**	**2.5**	**2.3**	**2.2**
Departmental AME	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.110 The Department for Environment, Food and Rural Affairs (DEFRA) settlement includes:

- **continued investment in flood and coastal erosion risk management, with £2 billion being spent in total over the Spending Review period;**
- **overall resource savings of 29 per cent in real terms by 2014-15, through reducing the number of Arms Length Bodies from 92 to 39 and focusing spending on key priorities; and**
- **environmental stewardship schemes which will deliver savings of £66 million a year by 2014-15, but will remain open to all farmers in England.**

Reform

2.111 DEFRA will focus spending on areas of high economic value. The settlement therefore provides for £2 billion to be spent on flood and coastal defences over the Spending Review period, better protecting 145,000 households by 2014-15. DEFRA will work with the Environment Agency and the Efficiency and Reform Group to review existing procurement strategies and maximise the money available, with expected efficiency savings of 15 per cent on capital investment by 2014-15.

2.112 DEFRA has cut the number of Arms Length Bodies it funds from 92 to 39, increasing transparency and accountability and creating savings. For example, the decision to abolish the Commission for Rural Communities is expected to save £18 million over the Spending Review period. Overall the Department will reduce its running costs by £174 million over the Spending Review period.

2.113 The Rural Development Programme for England will deliver savings of £66 million - the equivalent of about one third of spend in 2010-11. Making better use of available European Union funding will mean the scheme remains open to all farmers. In addition DEFRA will increase the proportion of the programme spent through schemes which have the most beneficial impact on the environment.

2.114 DEFRA will cease funding for seven waste PFI projects which, on reasonable assumptions, will no longer be needed to meet landfill diversion targets set by the European Union, saving £3 million by 2014-15, and more in the longer term.

2.115 DEFRA will look to reduce red tape and unnecessary burdens on farmers and food producers, without compromising standards. The task force on Farming Regulation will report by early 2011.

2.116 DEFRA will also take forward British Waterways' proposal to turn the organisation into a new waterways charity in England and Wales.

Department for Culture, Media and Sport

Table 2.19: Department for Culture, Media and Sport

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	1.4	1.4	1.3	1.2	1.1
Capital DEL	0.2	0.2	0.2	0.1	0.1
Total DEL	**1.5**	**1.6**	**1.5**	**1.3**	**1.3**
Departmental AME	**5.6**	**5.4**	**5.6**	**5.4**	**5.5**

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

Table 2.20: Olympics

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	-	0.1	0.6	0.0	-
Capital DEL	1.0	1.1	0.2	0.0	-0.1
Total DEL	**1.0**	**1.2**	**0.8**	**0.0**	**-0.1**

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.117 The Department for Culture, Media and Sport (DCMS) settlement includes:

- **provision for a safe and successful Olympic and Paralympic Games in 2012, by maintaining a public sector funding package of £9.3 billion;**
- **investing £530 million over the Spending Review period including £300 million from the TV licence fee, to improve the UK's broadband network;**
- **maintaining free entry to museums and galleries;**
- **capital project funding for the Tate Modern, the British Museum, and the British Library Newspaper Archive in Boston Spa;**
- **ensuring national cultural assets are preserved for future generations including by limiting cuts to 15 per cent for core programmes like Museums, Arts Council England funding to frontline arts and Sport England's Whole Sport plans; and**
- **overall resource savings of 24 per cent in real terms over the Spending Review period (excluding Olympics) through slimming down the Department and its Arms Length Bodies, and focusing on key priorities.**

Reform

2.118 To protect key commitments and ensure that maximum support is directed into delivering sporting and cultural services to the public, significant savings will be made across the department and its Arms Length Bodies. Overall administrative costs will be reduced by 41 per cent over the Spending Review period, including for Non Departmental Public Bodies (NDPBs) and the Government Olympic Executive, with many NDPBs making savings of 50 per cent, including the Arts Council England. In addition, funding will end for the Creative Partnerships programme, and funding will be cut for the British Film Institute, by 15 per cent, and for the Welsh language broadcaster S4C, by 25 per cent.

2.119 To increase the efficiency, transparency and accountability of public services, 19 of DCMS' 55 public bodies will be abolished or reformed. This includes the abolition of the UK Film Council and Museum, Libraries and Archives Council, the merger of UK Sport and Sport England, and the merger of the National Lottery Commission and Gambling Commission.

2.120 The Government has agreed with the BBC that the TV licence fee will fund BBC World Service, BBC Monitoring, and S4C, saving the Exchequer £340 million by 2014-15. The Government has also agreed with the BBC that the TV licence fee will be frozen until 2016-17.

2.121 While culture, media and sports will take their share of overall reductions to public spending, the Government is committed to supporting excellence and improving the quality of life for all through these sectors by:

- encouraging corporate investment to bring in new sources of funding and philanthropic giving, particularly in the arts;
- providing greater freedom and flexibilities for museums through easier access to reserves of privately raised funds, and taking a more strategic approach to public funding for the arts; and
- continuing to reform Lottery funding to ensure more money goes to support projects in the arts, sport and heritage, by allocating 60 per cent of Lottery funding to these causes and 40 per cent to the voluntary and community sector.

2.122 A total of £530 million will be invested over the Spending Review period to support the UK's broadband network, benefiting around 2 million households, including in some of the most remote areas of the UK. As part of this investment, the Government will also pursue superfast broadband pilot projects in North Yorkshire, Cumbria, Herefordshire, and the Highlands and Islands.

Box 2.5: The London 2012 Olympic and Paralympic Games

The Spending Review maintains the public sector funding package at £9.3 billion, supporting delivery of a safe and successful Games. The Olympic Delivery Authority has now completed over 70 per cent of the venues and infrastructure programme for the Games. As 2012 approaches, the nature of the Olympic programme will change, requiring swifter responses to remaining challenges. To facilitate this, the Spending Review announces that DCMS will become sole budget holder for central government spending on the Olympics. Responsibility and funding for security will continue to sit with the Home Office.

The Government will continue to work with the Mayor of London to ensure a genuine and lasting legacy. This will ensure five major new sporting venues for elite and community use, 2,800 new homes - half of which will be affordable housing - and 250 acres of new parklands. The sporting legacy of the Games will include the launch of a new Olympic and Paralympic style schools sports competition.

Department for Work and Pensions

Table 2.21: Department for Work and Pensions

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	6.8	7.6	7.4	7.4	7.6
Capital DEL	0.2	0.2	0.3	0.4	0.2
Total DEL	**7.0**	**7.8**	**7.7**	**7.8**	**7.8**
Departmental AME	**151.6**	**155.6**	**158.2**	**159.1**	**163.7**

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.123 The Department for Work and Pensions (DWP) settlement includes:

- **funding to implement the welfare reforms announced in the June Budget and at this Spending Review. This includes £2 billion over the next four years for the Universal Credit, which will replace the current complex system of means tested working age benefits with a single tapered payment that ensures work always pays;**
- **personalised back-to-work support through the Work Programme for the long term unemployed and disabled people, delivered by private and third sector specialists who will be paid on the basis of the additional benefit savings they secure;**
- **funding 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;**
- **overall resource savings of 26 per cent in real terms on DWP's core budget by 2014-15, through greater use of digital services for processing benefits, and better targeting of spending on employment programmes, the Child Maintenance and Enforcement Commission, and the Health and Safety Executive; and**
- **uprating the basic State Pension by a triple guarantee of earnings, prices or 2.5 per cent, whichever is highest, and preserving key benefits for older people including Winter Fuel Payments. Given the challenges posed by demographic change, the Government will raise the State Pension Age for men and women to 66 by April 2020.**

Fairness

2.124 Reform of the working age benefit system will deliver net AME savings of £7 billion a year by 2014-15, creating a fairer and more affordable welfare system, improving incentives to work and tackling dependency, while protecting those who are genuinely unable to work (see Box 2.6).

2.125 These reforms to the benefits system will be complemented by the new Work Programme, which will harness the expertise of private and third sector specialists to provide personalised support for those with the greatest barriers to employment. Providers will be paid on the basis of the additional benefit savings they secure, thereby incentivising higher performance levels and delivering net savings for the taxpayer. Support for the short term unemployed will continue to be provided through Jobcentre Plus, which is internationally recognised as a model of best practice.

Reform

2.126 DWP will reduce its corporate overheads by 40 per cent in real terms by 2014-15, through centralisation of support services and rationalisation of strategy and policy functions. Data sharing with other departments will facilitate streamlined processes that reduce costs to government and save time for customers. For example the 'Tell Us Once' project will ensure customers only have to report a birth or bereavement to one government agency.

Box 2.6: Welfare Reform

In contrast to previous Spending Reviews, Spending Review 2010 explicitly includes welfare spending within its scope. This has enabled the Government to take a more strategic look at the tradeoffs across both public services and welfare payments, shifting the balance towards the former in order to protect those services that increase social mobility and enhance long term prosperity. As a result of the measures announced at this Spending Review and the June Budget, welfare spending will be falling in real terms over the next four years, in contrast to the 45 per cent real increase over the last decade. Consultation with the public and external experts has indicated a strong consensus in support of this approach, and has also highlighted the urgent need to tackle the culture of welfare dependency engendered by the current benefits system.

The June Budget took the first step towards these goals with a package of measures that will deliver net savings of £11 billion a year by 2014-15. This included a switch to CPI for the annual indexation of benefits and pensions, and steps to control costs in Housing Benefit and tax credits. A proportion of the savings were recycled to fund a new triple guarantee that the Basic State Pension will be uprated by the higher of earnings, prices or 2.5 per cent each year. Increases to the Child Tax Credit also ensured that the Budget will have no measurable impact on child poverty in the next two years[a].

This Spending Review builds on these measures with further radical reforms. Over the next two Parliaments the current complex system of means tested working age benefits and tax credits will gradually be replaced with the Universal Credit, an integrated payment that will ensure work always pays, with less scope for fraud and error. £2 billion has been set aside in DWP's DEL settlement over the next four years to fund the implementation of the Universal Credit. Further details will be set out in DWP's forthcoming White Paper.

To provide a fair and affordable platform for the introduction of the Universal Credit the Spending Review also announces a package of reforms to the existing welfare system which will deliver net AME savings of £7 billion a year by 2014-15, including by:

- capping household benefit payments from 2013 at around £500 per week for couple and lone parent households and around £350 per week for single adult households, so that no family can receive more in welfare than median after tax earnings for working households. All Disability Living Allowance claimants, War Widows, and working families claiming the working tax credits will be exempt from the cap;
- withdrawing Child Benefit from families with a higher rate taxpayer from January 2013 so that people on lower incomes are not subsidising those who are better off, saving £2.5 billion a year by 2014-15; and
- controlling the costs of tax credits by[b]:
  - reducing the percentage of childcare costs that parents can claim through the childcare element of the Working Tax Credit (WTC) from 80 per cent to its previous 70 per cent level in April 2011, saving £385 million a year by 2014-15;
  - changing the eligibility rules so that couples with children must work 24 hours a week between them, with one partner working at least 16 hours a week in order to qualify for the WTC, saving £390 million a year by 2014-15;

[a] Estimated with HM Treasury's tax and benefits micro-simulation model, based on 2007-8 Family Resources Survey data projected to 2011-12 and 2012-13.

[b] The savings quoted for the tax credit reforms only cover the direct effects on Annually Managed Expenditure and not the negative tax implications, although these details are provided in the supplementary document 'Spending Review 2010 Policy Costings'.

- freezing the basic and 30 hour elements of the WTC for three years from 2011-12, saving £625 million a year by 2014-15; and
- increasing the child element above indexation by a further £30 in 2011-12 and £50 in 2012-13, in addition to the £150 and £60 increases provided at the June Budget. This will ensure that the overall outcome of the Spending Review will have no measurable impact on child poverty in the next two years.[c]

- time limiting contributory Employment and Support Allowance for those in the Work Related Activity Group to one year, to improve work incentives while protecting the most severely disabled and those with the lowest incomes, saving £2 billion a year by 2014-15;
- increasing the age threshold for the Shared Room Rate in Housing Benefit from 25 to 35. This will ensure that Housing Benefit rules reflect the housing expectations of people of a similar age not on benefits, saving £215 million a year by 2014-15;
- reducing spending on Council Tax Benefits by 10 per cent and localising it, saving £490 million a year from 2013-14, while protecting the most vulnerable. In addition, the Government will provide greater flexibilities to local authorities to manage pressures on council tax from the same date;
- removing the mobility component of Disability Living Allowance for people in residential care, where such costs are already met from public funds, saving £135 million a year by 2014-15;
- freezing the maximum Savings Credit award in Pension Credit for four years, thereby limiting the spread of means testing up the income distribution and saving £330 million a year by 2014-15;
- helping homeowners facing difficulties by extending for a further year the temporary change to the Support for Mortgage Interest scheme, to reduce the waiting period for new working age claimants to 13 weeks and increase the limit on eligible mortgage capital to £200,000, both of which were due to expire in January 2011;
- making permanent the temporary increases to Cold Weather Payments provided in the past two winters, at a cost of £50 million a year, so that eligible households receive £25 for each seven day cold spell recorded or forecast where they live; and
- to ensure dignity in retirement, the Government will uprate the basic State Pension by a triple guarantee of earnings, prices, or 2.5 per cent, whichever is highest.

Increasing longevity and demographic change pose challenges over the longer term. In response, the Government will speed up the pace of State Pension Age equilisation for women from April 2016 so that Women's State Pension Age reaches 65 in November 2018. The State Pension Age will then increase to 66 for both men and women from December 2018 to April 2020. Following the faster increase to 66, the Government is also considering future increases to the State Pension Age to manage the ongoing challenges posed by increasing longevity, and will bring forward proposals in due course. In addition, the Government will improve the quality and access to pensions in the Spending Review period.

[c] Estimated with the HM Treasury tax and benefits micro-simulation model based on 2007-08 Family Resources Survey data projected to 2011-12 and 2012-13.

Devolved Administrations

Table 2.22: Devolved Administrations

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Scotland					
Resource DEL[1]	24.8	24.8	25.1	25.3	25.4
Capital DEL	3.4	2.5	2.5	2.2	2.3
Total DEL	28.2	27.3	27.6	27.5	27.7
Departmental AME	**0.0**	**0.1**	**0.2**	**0.3**	**0.4**
Wales					
Resource DEL[1]	13.3	13.3	13.3	13.5	13.5
Capital DEL	1.7	1.3	1.2	1.1	1.1
Total DEL	15.0	14.5	14.5	14.5	14.6
Departmental AME	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Northern Ireland					
Resource DEL[1]	9.3	9.4	9.4	9.5	9.5
Capital DEL	1.2	0.9	0.9	0.8	0.8
Total DEL	10.5	10.3	10.3	10.3	10.3
Departmental AME	**5.5**	**5.8**	**5.7**	**5.9**	**6.1**

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.127 The Devolved Administrations' (DAs) settlement includes:

- **at least an additional £250 million through the Green Investment Bank for investment in green infrastructure in Scotland, subject to the Scottish Government agreeing to the drawdown of the Fossil Fuel Levy surplus;**
- **funding for the Northern Ireland Executive for a £175 million loan and £25 million access fund to ensure a fair and just resolution of issues arising from the collapse of the Presbyterian Mutual Society;**
- **depending on the outcome of the forthcoming referendum, consideration of the proposals in the final Holtham report, consistent with the work being taken forward in Scotland following the Calman Commission; and**
- **a cumulative 7 per cent real terms reduction to the resource budgets of Scotland, Wales, and Northern Ireland.**

2.128 The budgets of the DAs have been determined by the Barnett Formula in the usual way. The DAs are free to allocate their budgets in line with local needs and priorities and have their own programmes of reform and efficiency. Full details of the Barnett Formula can be found in a revised edition of the Statement of Funding policy, published alongside the Spending Review.[5]

2.129 In addition to the Barnett consequentials, the UK Government has agreed exceptionally to the following for the DAs:

- at least an additional £250 million through the proposed Green Investment Bank available for investment in green infrastructure in Scotland, subject to the Scottish Government agreeing to the drawdown of the Fossil Fuel Levy surplus for spending on renewables. Together with the Renewable Heat Incentive, this should mean funding for renewables in Scotland of at least £500 million;

[5] The revised Statement of Funding Policy is available on the Treasury website.

- funding for the Northern Ireland Executive for a £175 million loan, and a £25 million contribution to an access fund to ensure a fair, just and affordable resolution of issues arising from the collapse of the Presbyterian Mutual Society; and
- the Government recognises the concerns expressed by the Holtham Commission on the system of devolution funding. Depending on the outcome of the forthcoming referendum, the Government will consider with the Welsh Assembly Government the proposals in the final Holtham report, consistent with the work being taken forward in Scotland following the Calman Commission.

2.130 The Government is committed to the implementation of the Calman Commission Report, and will introduce a Scotland Bill in the current Parliamentary session.

2.131 The Government will continue to provide lending to the Northern Ireland Executive under the Reinvestment and Reform Initiative, at a rate of £200 million per year. In Scotland and Wales, local authorities will continue to be able to borrow under the prudential borrowing regime.

2.132 The Scotland, Wales and Northern Ireland Offices will receive a cumulative 25 per cent real terms reduction to their resource budgets and a 33 per cent reduction to their administration budgets. Their settlements have been top sliced from the respective block grant above, in the normal way.

Chancellor's Departments

HM Revenue and Customs

Table 2.23: HM Revenue and Customs

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	3.5	3.5	3.4	3.4	3.2
Capital DEL	0.2	0.3	0.1	0.1	0.1
Total DEL	**3.7**	**3.8**	**3.6**	**3.5**	**3.4**
Departmental AME	**36.2**	**37.1**	**36.6**	**35.3**	**36.4**

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.133 The HM Revenue and Customs (HMRC) settlement includes:

- **£900 million of investment to address the tax gap and tackle tax avoidance and evasion, bringing in an additional £7 billion per year in tax revenues by 2014-15;**
- **£100 million to improve the operation of Pay As You Earn (PAYE) for both employers and individuals;**
- **measures to deliver £8 billion of tax credit fraud and error savings by 2014-15; and**
- **overall resource savings of 15 per cent, including the additional investment, with efficiency savings of 25 per cent through enhanced use of new technology, rationalising the HMRC estate and maximising savings from IT contracts.**

Fairness

2.134 HMRC will invest £900 million to tackle tax avoidance, evasion, fraud and debt, bringing in an additional £7 billion a year in tax revenues by 2014-15. This will include:

- a five-fold increase in criminal prosecutions to act as a deterrent to others;

- a new dedicated team of investigators to crack down on offshore evasion;
- more resources for the prevention of tobacco and alcohol fraud, an increase in registration checks, and a cyber team to address repayment fraud;
- dedicated tax experts to extend HMRC's coverage of large businesses, focused on providing resources to tackle high risk areas; and
- improving the scope of in house debt collection and placing up to £1 billion per year of tax debt to private sector debt collection agencies.

2.135 DWP and HMRC published a joint strategy on 18 October 2010 which outlines how they will reduce fraud and error.[6]

2.136 HMRC will implement reforms of the tax credit system to increase fairness and improve affordability. As a result, HMRC AME will decrease accordingly. Further details of tax credits measures are included in Box 2.6 and Table 3.

Reform

2.137 In order to focus resources on frontline tax collection, HMRC will invest in new technology to improve risk assessment capability, better join up taxpayer information and streamline internal processes. Savings will be maximised from IT and other procurement contracts and administration costs will be reduced by a third with reductions in the size of corporate services and back office support functions.

2.138 HMRC will modernise tax administration and will improve and tailor services for taxpayers. All businesses will be filing their tax returns online by 2012 with at least 80 per cent of self assessments to be filed online by 2014-15. The Department will also modernise PAYE, moving towards more real time information so that people can be reassured that they have paid the right amount of tax throughout the year.

HM Treasury

Table 2.24: HM Treasury

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	0.2	0.2	0.2	0.2	0.1
Capital DEL	0.0	0.1	0.0	0.0	0.0
Total DEL	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Departmental AME	**-2.7**	**0.3**	**0.1**	**0.0**	**-0.1**

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.139 The Treasury settlement includes:

- **provision to ensure the Treasury continues to manage the process of deficit reduction and support the economic recovery; and**
- **overall resource savings of 33 per cent in real terms by 2014-15, including through reducing staffing levels, streamlining internal processes and better utilising the Treasury's estate.**

[6] *Tackling fraud and error in the benefit and tax credit systems* – HM Revenue and Customs and Department for Work and Pensions. www.dwp.gov.uk/docs/tackling-fraud-and-error.pdf

Reform

2.140 The Treasury will continue to manage the process of deficit reduction and support the economic recovery. It is setting up an Office for Budget Responsibility, and reforming the system of fiscal regulation.

2.141 The Treasury will deliver savings by reducing its headcount, improving control of non-pay expenditure and delivering savings from its estate. Headcount will fall following a strategic review of the Department. The Treasury will also maximise the use of its building, providing the opportunity for increased income through subletting. It will aim to halve the net cost of the building, as part of a Whitehall wide strategy that seeks overall best value for money for the Exchequer.

2.142 The Treasury will not provide any further funding for the Infrastructure Finance Unit, other than to meet its contractual obligations.

Box 2.7: Equitable Life

The Government pledged in the Coalition Agreement to "implement the Parliamentary Ombudsman's recommendation: to make fair and transparent payments to Equitable Life policyholders, through an independent payment scheme, for their relative loss as a consequence of regulatory failure."

After considering Sir John Chadwick's advice, which produced a calculation of losses resulting from regulatory failure of £340 million, and the views of the Parliamentary Ombudsman and interested parties, the Government has concluded that the relative loss suffered by policyholders is the difference between what policyholders actually received from their policies, and what they would have received if they had invested elsewhere. This approach encompasses all the Parliamentary Ombudsman's findings of maladministration, which the Government fully accepts.

The Equitable Life Payments Scheme must deliver fairness both to policyholders and to taxpayers. The Parliamentary Ombudsman has said: "it is appropriate to consider the potential impact on the public purse of any payment of compensation in this case", and the Government has carefully considered the amount of funding to be made available to the Payments Scheme in this Spending Review. When affordability is taken into consideration, it is important that the position of those who have been hardest hit by their losses is recognised. Policyholders with With Profits Annuities (WPAs) were particularly vulnerable to reductions in the value of their policies because they were unable to move their funds elsewhere, or to mitigate the impact of their losses through employment. They are also generally the eldest policy holders.

In light of these factors, the Government will cover the cost of the total relative loss suffered by WPAs, estimated at £620 million. WPAs will receive this in the form of regular payments, based on their full relative loss. £1 billion will be allocated to the Payments Scheme in this Spending Review period, which will cover both the initial costs of the first three years of WPA regular payments, and all payments to other policyholders. The Government expects the total amount of funding for the scheme to be in the region of £1.5 billion. This is over four times the loss figure that Sir John Chadwick's methodology produces.

The Independent Commission on Equitable Life Payments will advise on the allocation of funding to policyholders other than WPAs.

Royal Household

2.143 Grant support for the Royal Household will be static in 2011-12 and 2012-13 at £30 million. This will call for a 14 per cent reduction in Royal Household spending in 2012-13 since the civil list reserve will be exhausted. In that Jubilee year there will also be a temporary additional facility of £1 million. After that the Royal Household will receive a new sovereign support grant linked to the revenue of the Crown Estate.

Cabinet Office

Table 2.25: Cabinet Office

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	0.3	0.4	0.3	0.2	0.4
Capital DEL	0.0	0.0	0.0	0.1	0.0
Total DEL	**0.4**	**0.5**	**0.4**	**0.3**	**0.5**
Departmental AME	**1.4**	**1.4**	**1.6**	**1.8**	**2.0**

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.144 The Cabinet Office settlement includes:

- **arrangements to enable the implementation of key Coalition commitments including a referendum on the Alternative Vote (AV), the Boundary Review and Individual Electoral Registration;**
- **funding to support the Big Society including pilots for National Citizen Service;**
- **a transition fund of £100 million to support those voluntary and community sector organisations most affected in the short term by public spending reductions; and**
- **overall resource savings of 35 per cent on the Cabinet Office core budget, including further reductions in the use of consultants, rationalising its estate and back office services, renegotiating supplier contracts, and a reduction of 25 per cent across the Spending Review period in the costs of providing support to the Prime Minister.**

Reform

2.145 To implement key Coalition commitments, new responsibilities have been transferred to the Cabinet Office from other departments. This includes the transfer of spending on elections and constitutional reform from the Ministry of Justice; the Office of Government Commerce from the Treasury; and DirectGov from DWP. As a result, the Cabinet Office's overall settlement is higher. Excluding these changes, the Cabinet Office will make a saving of 35 per cent.

2.146 The Cabinet Office will continue to work with the Treasury to drive improvement, cost savings and innovation across Government through the Efficiency and Reform Group.

2.147 The Government will resource and implement the AV referendum and Boundary Review, as set out in the Coalition Agreement.

2.148 The Office for Civil Society has been funded to provide support for growing the Big Society which will include encouraging volunteering, building the capacity of the voluntary and community sector, establishing community organisers and setting up a Community First Fund to support local and community organisations. In addition, the Department has been funded to pilot National Citizen Service (NCS). The aim of NCS is to encourage young people to become engaged and involved in social action within their communities.

2.149 In recognition of the challenges faced by the voluntary and community sector, the Spending Review also announces a £100 million transition fund to provide support to those organisations delivering frontline services that stand to be affected in the short term by reductions in spending, and are able to demonstrate that the financial impact will affect their ability to deliver services. The fund will be provided for a transition period, enabling these organisations to adapt.

2.150 The Cabinet Office will make savings of 35 per cent on its core budget by cutting administration costs, including reducing its use of consultants and other external support; a significant rationalisation of its estate and back office services; and deriving benefits from the wider renegotiation of major contracts with leading suppliers to Government, being led by the Minister for the Cabinet Office.

2.151 There will be a reduction of 25 per cent across the period in the costs of providing support to the Prime Minister, including reducing travel costs through the use of more scheduled flights where possible rather than charters, energy efficiency and wider efficiencies.

Single Intelligence Account

Table 2.26: Single Intelligence Account

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	1.7	1.7	1.7	1.7	1.8
Capital DEL	0.3	0.4	0.3	0.3	0.3
Total DEL	**2.0**	**2.1**	**2.1**	**2.1**	**2.1**
o/w Cyber	0.0	0.1	0.1	0.1	0.1
Departmental AME	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

2.152 The security and intelligence agencies, funded through the Single Intelligence Account (SIA), do crucial work in protecting the national security of the UK from threats such as terrorism. The Spending Review protects core counter terrorism capabilities, while identifying efficiencies that will allow them to be delivered at lower cost.

2.153 A wide ranging package of efficiency measures will enable the security and intelligence agencies to continue to deliver while making a contribution to deficit reduction. Greater collaboration between the three agencies will make them more effective in their work, but also secure financial savings.

2.154 The Government's security priorities have been set out in full in the Strategic Defence and Security Review on 19th October. The SIA settlement reflects the decisions made in the review.

Box 2.8: Cyber Security

The rapidly changing nature of cyber threats to the UK demonstrates the need for a flexible cyber security response. With this in mind the Government is implementing a major new £650 million National Cyber Security Programme to deliver a step change in our cyber security capabilities across Government, managed from within the Cabinet Office. The programme will include the following priorities:

- overhauling the UK approach to tackling cyber crime;
- addressing the deficiencies in the UK's ability to detect and defend itself against cyber attack;
- addressing short comings in the critical cyber infrastructure, ensuring security is built into online public services and that additional support is given to key UK industries, including those critical networks owned and operated by the private sector; and
- fostering a more preventative approach to cyber security through investment in awareness raising, education and skill development.

A Statistical annex

A.1 This annex sets out in detail the projections of public expenditure that result from decisions made in the Spending Review. It shows baselines and spending plans for 2010-11, Departmental Expenditure Limits (DEL) and projections for Annually Managed Expenditure (AME) in the Spending Review period, from 2011-12 to 2014-15. The projections for AME are based on the Office for Budget Responsibility's forecast for the June Budget, adjusted for any AME measures in the Spending Review.

A.2 Table A1 sets out the composition of Total Managed Expenditure (TME) over the period. TME is the totality of public sector spending; the difference between TME and current receipts is Public Sector Net Borrowing (PSNB). Table A1 also shows the current and capital envelopes for the spending included within the Spending Review and how this breaks down into Resource DEL, Resource AME, Capital DEL and Capital AME as a result of decisions in the Spending Review.

Table A.1: Total Managed Expenditure

	£ billion				
	Plans	Forecasts			
	2010-11	2011-12	2012-13	2013-14	2014-15
CURRENT EXPENDITURE					
Resource Annually Managed Expenditure	294.6	308.5	320.1	329.7	344.6
Resource Departmental Expenditure Limits	342.7	342.7	344.4	348.9	348.0
Public sector current expenditure	637.3	651.1	664.5	678.6	692.7
CAPITAL EXPENDITURE					
Capital Annually Managed Expenditure	7.8	7.3	6.7	6.4	6.9
Capital Departmental Expenditure Limits	51.6	43.5	41.8	39.2	40.2
Public sector gross investment	59.5	50.7	48.5	45.6	47.2
TOTAL MANAGED EXPENDITURE	696.8	701.8	713.0	724.2	739.8
Spending Envelope for Spending Review 2010[1]		**641.6**	**646.7**	**651.6**	**661.0**
Of which:					
Resource spending envelope		591.6	598.9	606.7	614.5
of which Annually Managed Expenditure		*249.0*	*254.5*	*257.8*	*266.5*
of which Departmental Expenditure Limits		*342.7*	*344.4*	*348.9*	*348.0*
Capital spending envelope		50.0	47.8	44.8	46.4
of which Annually Managed Expenditure		*6.5*	*6.0*	*5.6*	*6.2*
of which Departmental Expenditure Limits		*43.5*	*41.8*	*39.2*	*40.2*

1The envelope is defined as Total Managed Expenditure less BBC domestic services, National Lottery, net expenditure transfers to EU institutions and debt interest.

A.3 The Spending Review sets out the Government's plans to cut £81 billion from TME by 2014-15 as set out in Table A2. This figure is calculated in comparison to the level of spending if DEL had grown in line with inflation and AME had followed the Office of Budget Responsibility's forecast with no policy changes.

Table A.2: Spending reductions[1]

	£ billion			
	Forecasts			
	2011-12	2012-13	2013-14	2014-15
Policy inherited by the Government	14	25	39	52
Discretionary policy announced at the Budget	9	17	24	32
Total discretionary spending cuts at the Budget	23	42	63	83
Adjustment to Public Sector Gross Investment	-2.0	-2.0	-2.3	-2.3
Total discretionary spending cuts at the Spending Review	21	40	61	81

1 Spending reductions against baseline of growing DEL in line with inflation, in line with Table 4.8 in the OBR pre-Budget forecast and AME as forecast at Budget.

A.4 TME comprises Public Sector Current Expenditure (PSCE) and Public Sector Gross Investment (PSGI). The difference between PSCE and current receipts is the current deficit. The structural element of this (the part that is not the result of variations in the economic cycle) is the primary measure in the Government's fiscal mandate[1]. Tables A3 and A4 set out the level of PSCE and PSGI from 2010-11 to 2014-15, broken down into the categories of spending managed by departments and other items.

[1]The primary fiscal mandate is to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period, currently 2015-16.

Table A.3: Public Sector Current Expenditure[1]

	£ billion				
	Baseline plans and Forecasts				
	2010-11	2011-12	2012-13	2013-14	2014-15
PSCE					
Education	53.1	53.9	55.4	56.6	58.0
NHS (Health)[2]	97.7	101.1	104.2	107.8	111.3
Transport	6.0	6.2	6.0	5.9	5.4
CLG Communities	2.2	2.0	1.8	1.7	1.3
CLG Local Government	29.0	26.6	24.9	24.7	23.3
Business, Innovation and Skills	19.3	19.2	18.6	18.3	17.9
Home Office	10.2	10.0	9.6	9.2	9.0
Justice	8.7	8.6	8.3	7.9	7.6
Law Officers' Departments	0.7	0.7	0.6	0.6	0.6
Defence	35.4	35.9	37.0	37.2	37.6
Foreign and Commonwealth Office	1.5	1.6	1.6	1.5	1.3
International Development	6.4	6.8	7.3	9.5	9.5
Energy and Climate Change	1.2	1.6	1.4	1.4	1.1
Environment, Food and Rural Affairs	2.6	2.5	2.3	2.2	2.1
Culture, Media and Sport	6.1	6.2	7.4	6.2	6.1
Work and Pensions	158.5	163.4	165.7	166.7	171.4
Scotland	25.4	25.5	26.0	26.3	26.5
Wales	13.7	13.6	13.7	13.9	14.0
Northern Ireland	14.8	15.2	15.4	15.6	15.9
HM Revenue and Customs	39.7	40.9	40.2	38.9	39.8
HM Treasury	-2.4	0.6	0.4	0.3	0.1
Cabinet Office	1.8	1.8	1.9	2.1	2.5
Single Intelligence Account	2.1	2.1	2.1	2.2	2.2
Small and Independent Bodies[3]	2.1	2.0	1.8	1.8	1.7
Reserve	2.0	2.3	2.4	2.5	2.5
Special Reserve	3.4	3.2	3.1	3.0	2.8
Green Investment Bank[4]	-	-	-	1.0	-
Central government gross debt interest	43.3	46.5	52.4	57.8	63.0
Net expenditure transfers to EU institutions	8.3	8.3	8.3	9.3	10.3
Locally-financed expenditure	27.6	27.2	28.1	29.4	30.5
Public sector pension policy		0.0	-1.2	-2.3	-2.8
AME margin		1.0	2.0	3.0	4.0
Accounting adjustments	14.1	14.4	15.6	16.5	16.2
of which:					
DECC levy-funded spending and Renewable Heat Incentive	0.7	1.1	1.5	2.0	2.6
PSCE	637.3	651.1	664.5	678.6	692.7
Memo:					
Reserve and AME margin as a percentage of PSCE (per cent)	0.3	0.5	0.7	0.8	0.9

1 Comprising Departmental Expenditure Limits and departmental Annually Managed Expenditure
2 This NHS line does not include PSS Grant or the Food Standards Agency as in previous publications
3 For details on small independent bodies see Table A.12
4 The Government intends to make further funding available for the Green Investment Bank from the sale of Government owned assets.

Table A.4: Public Sector Gross Investment

	£ billion				
		Plans and Forecasts			
	2010-11	2011-12	2012-13	2013-14	2014-15
PSGI					
Education	7.6	4.9	4.2	3.3	3.4
NHS (Health)	5.1	4.4	4.4	4.4	4.6
Transport	7.9	8.0	8.3	7.7	7.8
CLG Communities	7.4	3.9	3.0	2.5	2.6
CLG Local Government	0.0	0.0	0.0	0.0	0.0
Business, Innovation and Skills	2.5	1.8	1.7	1.4	1.6
Home Office	0.8	0.5	0.5	0.4	0.5
Justice	0.6	0.4	0.3	0.3	0.3
Law Officers' Departments	0.0	0.0	0.0	0.0	0.0
Defence	8.7	8.9	9.1	9.2	8.7
Foreign and Commonwealth Office	0.2	0.1	0.1	0.1	0.1
International Development	1.6	1.4	1.6	1.9	2.0
Energy and Climate Change	1.6	1.4	1.9	2.1	2.6
Environment, Food and Rural Affairs	0.6	0.4	0.4	0.4	0.4
Culture, Media and Sport	2.2	2.0	1.2	0.8	0.8
Work and Pensions	0.4	0.3	0.4	0.4	0.3
Scotland	3.4	2.5	2.5	2.2	2.3
Wales	1.7	1.3	1.2	1.1	1.1
Northern Ireland	1.5	1.2	1.0	0.9	1.0
HM Revenue and Customs	0.4	0.3	0.1	0.1	0.1
HM Treasury	0.0	0.0	0.0	0.0	0.0
Cabinet Office	0.0	0.0	0.0	0.1	0.0
Single Intelligence Account	0.3	0.4	0.3	0.3	0.3
Small and Independent Bodies	0.0	0.0	0.0	0.0	0.0
Reserve	2.1	1.0	1.0	1.0	1.1
Special Reserve	0.7	0.7	0.8	0.8	0.8
Locally-financed expenditure	5.4	4.3	4.0	3.8	3.7
Public corporations' own-financed capital expenditure	7.4	7.4	7.3	7.3	7.3
Accounting adjustments	-7.9	-6.8	-6.8	-6.9	-6.2
Public Sector Gross Investment	**59.5**	**50.7**	**48.5**	**45.6**	**47.2**
Memo:					
Reserve as a percentage of PSGI (per cent)	3.5	2.0	2.1	2.2	2.3

A.5 In the spending framework inherited by this Government, spending is broken down into DEL and AME. Fixed DEL budgets are set for each department for a multi-year period. Spending that is considered difficult to control within fixed budgets due to its size or volatility is categorised as AME. Budgets are separated into capital, which generally equates to spending that scores within PSGI, and resource, generally within PSCE. Tables A5 to A8 show Departmental Programme and Administration budgets (Resource DEL excluding depreciation), and departmental capital budgets (Capital DEL), and Resource AME and Capital AME by department.

A.6 The departmental analyses do not show all of departments' AME spending. Consistent with Table C13 of the June Budget, it excludes departmental AME spending that does not score in Total Managed Expenditure (TME). In particular, it excludes student loans and most non-cash items, which do not score in TME, PSCE or PSNB.

Table A.5: Departmental Programme and Administration Budgets (Resource DEL excluding depreciation[1])

	£ billion					Per cent
	Baseline[2]	Plans				Cumulative
	2010-11	2011-12	2012-13	2013-14	2014-15	real growth
Departmental Programme and Administration Budgets						
Education[3]	50.8	51.2	52.1	52.9	53.9	**-3.4**
NHS (Health)	98.7	101.5	104.0	106.9	109.8	**1.3**
Transport	5.1	5.3	5.0	5.0	4.4	**-21**
CLG Communities[4]	2.2	2.0	1.7	1.6	1.2	**-51**
CLG Local Government 5	28.5	26.1	24.4	24.2	22.9	**-27**
Business, Innovation and Skills	16.7	16.5	15.6	14.7	13.7	**-25**
Home Office[6]	9.3	8.9	8.5	8.1	7.8	**-23**
Justice	8.3	8.1	7.7	7.4	7.0	**-23**
Law Officers' Departments	0.7	0.6	0.6	0.6	0.6	**-24**
Defence	24.3	24.9	25.2	24.9	24.7	**-7.5**
Foreign and Commonwealth Office	1.4	1.5	1.5	1.4	1.2	**-24**
International Development	6.3	6.7	7.2	9.4	9.4	**37**
Energy and Climate Change	1.2	1.5	1.4	1.3	1.0	**-18**
Environment, Food and Rural Affairs	2.3	2.2	2.1	2.0	1.8	**-29**
Culture, Media and Sport[7]	1.4	1.4	1.3	1.2	1.1	**-24**
Olympics[8]	-	0.1	0.6	0.0	-	**-**
Work and Pensions	6.8	7.6	7.4	7.4	7.6	**2.3**
Scotland[9]	24.8	24.8	25.1	25.3	25.4	**-6.8**
Wales[9]	13.3	13.3	13.3	13.5	13.5	**-7.5**
Northern Ireland[9]	9.3	9.4	9.4	9.5	9.5	**-6.9**
HM Revenue and Customs	3.5	3.5	3.4	3.4	3.2	**-15**
HM Treasury	0.2	0.2	0.2	0.2	0.1	**-33**
Cabinet Office[10]	0.3	0.4	0.3	0.2	0.4	**28**
Single Intelligence Account 11	1.7	1.7	1.7	1.7	1.8	**-7.3**
Small and Independent Bodies[12]	1.8	1.8	1.6	1.5	1.4	**-27**
Reserve	2.0	2.3	2.4	2.5	2.5	**-**
Special Reserve	3.4	3.2	3.1	3.0	2.8	**-**
Green Investment Bank	-	-	-	1.0	-	**-**
Total	**326.6**	**326.7**	**326.9**	**330.9**	**328.9**	**-8.3**
memo:						
Central government contributions to local government[13]	29.7	27.5	26.3	25.5	24.2	-26
Local Government Spending[14]	51.8	49.8	49.5	49.5	49.1	-14
Central government contributions to police	9.7	9.3	8.8	8.7	8.5	-20
Police Spending (including precept)	12.9	12.6	12.2	12.1	12.1	-14
Regional Growth Fund	-	0.5	0.5	0.4	-	-

1 Depreciation in Resource DEL is drawn from departmental resource accounts and follows International Financial Reporting Standards. This currently differs from National Accounts depreciation, which is used in the calculation of PSCE by the Office for National Statistics.

2 As at all spending reviews, baselines exclude one-off and time-limited expenditure and therefore may not sum to 2010-11 total. Cumulative real growth is calculated using the 2010-11 baseline.

3 Includes the Office of the Qualifications and Examinations Regulator

4 If grants moving to local government are included then CLG Communities growth is -33%

5 LG DEL includes funding for police and fire authorities. Excluding these contributions LG DEL for councils will fall by 28%

6 If contributions to police are excluded then the Home Office growth is -30%

7 The DCMS baseline excludes £85m of broadcasting funding, which the BBC will fund from 2013-14.

8 Olympics is included in DCMS DEL.

9 The Government agreed that as part of the £6.2bn cuts to 2010-11 budgets the Devolved Administrations could defer their cuts to 2011-12. The settlements presented here assume the Northern Ireland Executive take their cuts in 2010-11, the Scottish Executive take their cuts in 2011-12, and the Welsh Assembly Government split their cuts equally between 2010-11 and 2011-12. These settlements are subject to change as the Devolved Administrations finalise their spending plans.

10 Includes one-off funding in 2014-15 for Individual Electoral Registration (£85m) and the costs of the 2014 election to the European Parliament (£120m). Excluding these, the core Cabinet Office settlement will be cut by 35%.

11 Includes SIA contribution to National Cyber Security Programme

12 A more detailed breakdown of small and independent bodies' is set out in Table A12

13 Values and profile based on indicative allocations from departments.

14 Includes the OBR's forecast for growth in council tax receipts

Table A.6: Departmental Capital Budgets (Capital DEL)

	£ billion					Per cent
	Baseline[1]	Plans				Cumulative
	2010-11	2011-12	2012-13	2013-14	2014-15	real growth
Capital DEL						
Education	7.6	4.9	4.2	3.3	3.4	-60
NHS (Health)	5.1	4.4	4.4	4.4	4.6	-17
Transport	7.7	7.7	8.1	7.5	7.5	-11
CLG Communities	6.8	3.3	2.3	1.8	2.0	-74
CLG Local Government	0.0	0.0	0.0	0.0	0.0	-100
Business, Innovation and Skills	1.8	1.2	1.1	0.8	1.0	-52
Home Office	0.8	0.5	0.5	0.4	0.5	-49
Justice	0.6	0.4	0.3	0.3	0.3	-50
Law Officers' Departments	0.0	0.0	0.0	0.0	0.0	-46
Defence	8.6	8.9	9.1	9.2	8.7	-7.5
Foreign and Commonwealth Office	0.2	0.1	0.1	0.1	0.1	-55
International Development	1.6	1.4	1.6	1.9	2.0	20
Energy and Climate Change	1.7	1.5	2.0	2.2	2.7	41
Environment, Food and Rural Affairs	0.6	0.4	0.4	0.4	0.4	-34
Culture, Media and Sport	0.2	0.2	0.2	0.1	0.1	-32
Olympics[2]	1.0	1.1	0.2	0.0	-0.1	-
Work and Pensions	0.2	0.2	0.3	0.4	0.2	-5.5
Scotland[3]	3.4	2.5	2.5	2.2	2.3	-38
Wales[3]	1.7	1.3	1.2	1.1	1.1	-41
Northern Ireland[3]	1.2	0.9	0.9	0.8	0.8	-37
HM Revenue and Customs	0.2	0.3	0.1	0.1	0.1	-44
HM Treasury	0.0	0.1	0.0	0.0	0.0	-30
Cabinet Office	0.0	0.0	0.0	0.1	0.0	-28
Single Intelligence Account 4	0.3	0.4	0.3	0.3	0.3	-2.8
Small and Independent Bodies	0.1	0.1	0.1	0.1	0.1	-52
Reserve	2.1	1.0	1.0	1.0	1.1	-
Special Reserve	0.7	0.7	0.8	0.8	0.8	-
Total Capital DEL	51.6	43.5	41.8	39.2	40.2	-29

1 As at all spending reviews, baselines exclude one-off and time-limited expenditure and therefore may not sum to 2010-11 total. Cumulative real growth is calculated using the 2010-11 baseline.

2 Olympics is included within DCMS DEL.

3 The Government agreed that as part of the £6.2bn cuts to 2010-11 budgets the Devolved Administrations could defer their cuts to 2011-12. The settlements presented here assume the Welsh Assembly Government and the Northern Ireland Executive take their cuts in 2010-11 and the Scottish Executive take their cuts in 2011-12. These settlements are subject to change as the Devolved Administrations finalise their spending plans.

4 Includes SIA contribution to National Cyber Security Programme

Table A.7: Resource AME by department[1]

	£ billion				
			Forecasts		
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource AME					
Education	2.2	2.7	3.3	3.7	4.2
NHS (Health)	-2.0	-1.6	-1.0	-0.4	0.2
Transport	0.0	0.0	0.0	0.0	0.0
CLG Communities	-0.1	0.0	0.1	0.0	0.0
CLG Local Government	0.5	0.5	0.5	0.5	0.5
Business, Innovation and Skills	0.9	0.8	0.8	0.8	0.8
Home Office	0.7	0.8	0.9	0.9	1.0
Justice	0.0	0.0	0.0	0.0	0.0
Law Officers' Departments	0.0	0.0	0.0	0.0	0.0
Defence	2.7	2.8	3.1	3.3	3.4
Foreign and Commonwealth Office	0.0	0.0	0.0	0.0	0.0
International Development	0.1	0.1	0.1	0.1	0.1
Energy and Climate Change	0.1	0.0	0.0	0.0	0.0
Environment, Food and Rural Affairs	0.1	0.1	0.1	0.1	0.1
Culture, Media and Sport	4.6	4.6	4.9	4.7	4.8
Work and Pensions	151.5	155.6	158.1	159.1	163.7
Scotland	0.0	0.1	0.2	0.3	0.4
Wales	-0.1	-0.1	-0.1	-0.1	-0.1
Northern Ireland	5.2	5.5	5.6	5.7	6.0
HM Revenue and Customs	36.0	37.1	36.6	35.3	36.4
HM Treasury	-2.6	0.4	0.2	0.1	0.0
Cabinet Office	1.4	1.4	1.6	1.8	2.0
Single Intelligence Account	0.0	0.0	0.0	0.0	0.0
Small and Independent Bodies	0.2	0.2	0.2	0.2	0.2
Central government gross debt interest	43.3	46.5	52.4	57.8	63.0
Net expenditure transfers to EU institutions	8.3	8.3	8.3	9.3	10.3
Locally-financed expenditure	27.6	27.2	28.1	29.4	30.5
Public sector pension policy	0.0	0.0	-1.2	-2.3	-2.8
AME margin	0.0	1.0	2.0	3.0	4.0
Accounting adjustments	14.1	14.4	15.6	16.5	16.2
of which:					
DECC levy-funded spending and Renewable Heat Incentive[2]	0.7	1.1	1.5	2.0	2.6
Resource AME	294.6	308.5	320.1	329.7	344.6

1 This departmental breakdown does not show all of each departments' AME spending, to ensure consistency with table C13 in Budget 2010, which excludes rows of departmental AME spending that do not score in Total Managed Expenditure (TME). In particular this excludes student loans and departments non-cash items.

2 These include renewable support schemes like the Renewables Obligation (RO), which are defined by the ONS as tax and spend. The ONS are currently reviewing their methodology for estimating levels of tax and spend through the RO.

Table A.8: Capital AME[1]

	£ billion				
			Forecasts		
	2010-11	2011-12	2012-13	2013-14	2014-15
Capital AME					
Education	0.0	0.0	0.0	0.0	0.0
NHS (Health)	0.0	0.0	0.0	0.0	0.0
Transport	0.3	0.3	0.3	0.3	0.3
CLG Communities	0.7	0.7	0.7	0.7	0.7
CLG Local Government	0.0	0.0	0.0	0.0	0.0
Business, Innovation and Skills	0.6	0.6	0.6	0.6	0.6
Home Office	0.0	0.0	0.0	0.0	0.0
Justice	0.0	0.0	0.0	0.0	0.0
Law Officers' Departments	0.0	0.0	0.0	0.0	0.0
Defence	0.1	0.0	0.0	0.0	0.0
Foreign and Commonwealth Office	0.0	0.0	0.0	0.0	0.0
International Development	0.0	0.0	0.0	0.0	0.0
Energy and Climate Change	-0.1	-0.1	-0.1	-0.1	-0.1
Environment, Food and Rural Affairs	0.0	0.0	0.0	0.0	0.0
Culture, Media and Sport	1.0	0.8	0.7	0.7	0.7
Work and Pensions	0.2	0.0	0.0	0.0	0.0
Scotland	0.0	0.0	0.0	0.0	0.0
Wales	0.0	0.0	0.0	0.0	0.0
Northern Ireland	0.3	0.3	0.2	0.1	0.2
HM Revenue and Customs	0.2	0.0	0.0	0.0	0.0
HM Treasury	-0.1	-0.1	-0.1	-0.1	-0.1
Cabinet Office	0.0	0.0	0.0	0.0	0.0
Single Intelligence Account	0.0	0.0	0.0	0.0	0.0
Small and Independent Bodies	-0.1	-0.1	-0.1	-0.1	-0.1
Locally-financed expenditure	5.4	4.3	4.0	3.8	3.7
Public corporations' own-financed capital expenditure	7.4	7.4	7.3	7.3	7.3
Accounting adjustments	-7.9	-6.8	-6.8	-6.9	-6.2
Capital AME		7.3	6.7	6.4	6.9

1 This departmental breakdown does not show all of departments' AME spending. This is because they are consistent with table C13 in Budget 2010, which excludes rows of departmental AME spending that do not score in Total Managed Expenditure (TME). In particular Table C13 excludes student loans and departments non-cash items, which do not score in Public Sector Current Expenditure (PSCE) or TME or Public Sector Net Borrowing.

A.7 The Department of Energy and Climate Change controls a number of subsidy programmes that encourage investment in low-carbon technologies and energy efficiency, including some that are funded from levy income. These score in AME rather than DECC's DEL budget.

A.8 The accounting adjustments in Tables A7 and A8 reconcile DEL and AME budgets with the National Accounts definitions of PSCE, PSGI and TME. A breakdown of these adjustments is given in *Budget 2010: The economy & public finances – supplementary material*. The accounting adjustments have changed since the June Budget as a result of an increase in depreciation and student loan impairments expenditure in Resource DEL. This increase does not affect PSCE or PSGI and an offsetting reduction is therefore made in current accounting adjustments. The Government is setting an AME margin of £1 billion in 2011-12 rising to £4 billion in 2014-15. The AME margin is a contingency against changes to the AME forecast.

A.9 There are a number of items in DEL and AME that are classified as negative expenditure. These include receipts from the provision of goods and services or the sale of assets, as well as items such as pension contributions. For certain departments, the balance of negative public expenditure scoring to AME outweighs expenditure, resulting in a negative AME total.

A.10 As part of the Alignment ("Clear Line of Sight") project, resource expenditure within DEL now falls within a single RDEL budget, without separate near-cash and non-cash controls. However, a proportion of RDEL, in particular depreciation, is not currently used in measurement of the fiscal aggregates by the Office for National Statistics and so does not directly impact on the Government's fiscal mandate or on the level of Public Sector Net Debt or Public Sector Net Borrowing. Table A5 therefore excludes depreciation. This effectively measures the spending in RDEL which directly contributes to the Government's fiscal consolidation.

A.11 In tables A5 and A6, 2010-11 DEL figures differ from departmental plans because the tables use baseline numbers. As in all Spending Reviews, baselines exclude one-off and time-limited expenditure, such as Reserve claims and end-year flexibility. The reversal of temporary adjustments provides a consistent starting point from which to conduct the Spending Review. Cumulative growth figures are calculated with reference to these 2010-11 baseline figures. Spending plans for 2011-12 to 2014-15 are based on the decisions set out in the Spending Review.

A.12 There are separate Resource and Capital Reserves in DEL, which provide a contingency to meet unforeseeable costs that arise over the Spending Review period. The Special Reserve allocation for military operations reflects an agreed forecast for Reserve expenditure over the Spending Review period, taking account of our military commitment in Afghanistan. This is not a fixed budget, and the Treasury remains committed to funding all the net additional costs of military operations in Afghanistan from the Special Reserve.

A.13 Table A9 shows total DEL by department. Total DEL is the sum of Resource DEL (excluding depreciation) and Capital DEL.

Table A.9: Total Departmental Expenditure Limits[1]

	£ billion				
	Baseline[2]	Plans			
	2010-11	2011-12	2012-13	2013-14	2014-15
Total DEL					
Education	58.4	56.1	56.3	56.2	57.2
NHS (Health)	103.8	105.9	108.4	111.4	114.4
Transport	12.8	13.0	13.1	12.5	12.0
CLG Communities	9.0	5.3	4.0	3.4	3.2
CLG Local Government	28.5	26.1	24.4	24.2	22.9
Business, Innovation and Skills	18.6	17.6	16.7	15.5	14.6
Home Office	10.1	9.4	9.0	8.4	8.3
Justice	8.9	8.6	8.0	7.6	7.3
Law Officers' Departments	0.7	0.7	0.6	0.6	0.6
Defence	32.9	33.8	34.4	34.1	33.5
Foreign and Commonwealth Office	1.6	1.6	1.6	1.5	1.3
International Development	7.8	8.1	8.8	11.3	11.5
Energy and Climate Change	2.9	3.0	3.4	3.5	3.7
Environment, Food and Rural Affairs	2.9	2.6	2.5	2.3	2.2
Culture, Media and Sport	1.5	1.6	1.5	1.3	1.3
Olympics[3]	1.0	1.1	0.2	0.0	-0.1
Work and Pensions	7.0	7.8	7.7	7.8	7.8
Scotland	28.2	27.3	27.6	27.5	27.7
Wales	15.0	14.5	14.5	14.5	14.6
Northern Ireland	10.5	10.3	10.3	10.3	10.3
HM Revenue and Customs	3.7	3.8	3.6	3.5	3.4
HM Treasury	0.2	0.2	0.2	0.2	0.2
Cabinet Office	0.4	0.5	0.4	0.3	0.5
Single Intelligence Account	2.0	2.1	2.1	2.1	2.1
Small and Independent Bodies	1.9	1.8	1.6	1.6	1.5
Reserve	4.1	3.3	3.4	3.5	3.6
Special Reserve	4.1	4.0	3.8	3.8	3.5
Green Investment Bank	-	-	-	1.0	-
Total DEL	**378.2**	**370.1**	**368.8**	**370.1**	**369.1**

1 Total DEL is the sum of Resource DEL (excluding depreciation) and CDEL
2 As at all spending reviews, baselines exclude one-off and time-limited expenditure and therefore may not sum to 2010-11 total.
3 Olympics is included within DCMS DEL

A.14 Table A10 sets out RDEL allocations including depreciation for the Spending Review period. Depreciation measures the reduction in value of assets over the course of a year. Departments calculate depreciation for RDEL budgets according to International Financial Reporting Standards.

Table A.10: Resource DEL including depreciation

	£ billion				
	Baseline[1]	Plans			
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL					
Education	50.8	51.2	52.1	52.9	53.9
NHS (Health)	99.8	102.6	105.2	108.2	111.1
Transport	6.0	6.2	6.0	5.9	5.4
CLG Communities	2.3	2.0	1.7	1.6	1.3
CLG Local Government	28.5	26.1	24.4	24.2	22.9
Business, Innovation and Skills	18.4	18.4	17.9	17.5	17.1
Home Office	9.5	9.2	8.8	8.3	8.1
Justice	8.8	8.6	8.3	7.9	7.7
Law Officers' Departments	0.7	0.7	0.6	0.6	0.6
Defence	32.7	33.2	33.9	33.9	34.2
Foreign and Commonwealth Office	1.5	1.6	1.6	1.5	1.3
International Development	6.3	6.7	7.2	9.4	9.4
Energy and Climate Change	1.2	1.5	1.4	1.4	1.0
Environment, Food and Rural Affairs	2.5	2.4	2.3	2.1	2.0
Culture, Media and Sport (inc Olympics)	1.5	1.6	2.5	1.5	1.3
Work and Pensions	7.0	7.8	7.6	7.6	7.7
Scotland[2]	25.4	25.4	25.8	26.0	26.2
Wales[2]	13.7	13.7	13.8	14.0	14.0
Northern Ireland[2]	9.6	9.8	9.8	9.8	9.9
HM Revenue and Customs	3.7	3.7	3.6	3.6	3.5
HM Treasury	0.2	0.2	0.2	0.2	0.2
Cabinet Office	0.3	0.4	0.4	0.3	0.4
Single Intelligence Account	2.1	2.1	2.1	2.2	2.2
Small and Independent Bodies	1.9	1.8	1.6	1.6	1.5
Reserve	2.0	2.3	2.4	2.5	2.5
Special Reserve	3.4	3.2	3.1	3.0	2.8
Green Investment Bank	-	-	-	1.0	-
Total Resource DEL including depreciation	**342.7**	**342.7**	**344.4**	**348.9**	**348.0**

1 As at all spending reviews, baselines exclude one-off and time-limited expenditure and therefore may not sum to 2010-11 total. Cumulative real growth is calculated using the 2010-11 baseline.

2The Government agreed that as part of the £6.2bn cuts to 2010-11 budgets the Devolved Administrations could defer their cuts to 2011-12. The settlements presented here assume the Northern Ireland Executive take their cuts in 2010-11, the Scottish Executive take their cuts in 2011-12, and the Welsh Assembly Government split their cuts equally between 2010-11 and 2011-12. These settlements are subject to change as the Devolved Administrations finalise when their spending plans.

A.15 Table A11 shows administration budgets. Administration budgets limit expenditure on the running costs of central Government which do not directly support the front line, for example, business support services, the provision of policy advice, cost of accommodation and office services. Administration budgets previously covered only the running costs of central Whitehall departments. In order to improve spending control and drive down the costs of administration across Whitehall, as part of the Spending Review, from April 2011 the Government will extend administration budgets to cover Non-Departmental Public Bodies (NDPBs) and other Arm's Length Bodies (ALBs) which were not previously included. By doing so the Government has removed perverse incentives for departments to set up ALBs to reduce their administration costs, allowing them to better manage the costs of wider central government, not just the civil service.

A.16 As part of the Spending Review, the elements of HM Revenue and Customs and the Department for Work and Pensions directly involved in service delivery have been reclassified as programme rather than administration spending, to better reflect central government administration costs.

Table A.11: Administration budgets

	£ million					Per cent
	Baseline[1]	Plans				Cumulative
	2010-11	2011-12	2012-13	2013-14	2014-15	real growth
Administration budgets						
Education	508	466	432	401	372	-33
NHS	5,074	4,500	4,000	3,715	3,715	-33
Transport	295	272	252	233	216	-33
CLG Communities	452	399	360	323	289	-42
Business, Innovation and Skills[2]	918	838	687	641	609	-40
Home Office	731	650	598	562	538	-33
Justice	704	655	606	561	517	-33
Law Officers' Departments	69	64	61	57	51	-33
Defence[3]	2,183	2,025	1,877	1,736	1,598	-33
Foreign and Commonwealth Office	248	229	212	196	182	-33
International Development	128	121	112	103	94	-33
Energy and Climate Change	236	218	202	187	174	-33
Environment, Food and Rural Affairs	652	601	555	515	478	-33
Culture, Media and Sport	180	166	151	129	116	-41
Work and Pensions	1,541	1,483	1,290	1,166	1,105	-35
HM Revenue and Customs	1,025	945	875	812	754	-33
HM Treasury	158	153	148	133	117	-33
Cabinet Office	177	163	151	140	130	-33
Single Intelligence Account	82	82	74	62	61	-33
Small departments[4]	404	375	350	315	300	-33
Total administration budgets	**15,765**	**14,404**	**12,993**	**11,986**	**11,415**	**-34**

1 As at all spending reviews, baselines exclude one-off and time-limited expenditure. Cumulative real growth is calculated using the 2010-11 baseline. Administration budgets have been expanded to include Arm's Length Bodies and this is reflected in increased 2010-11 baselines compared to 2010-11 outturn. Cumulative real growth is calculated using the 2010-11 baseline.

2 Department for Business, Innovation and Skills administration budget reductions include Regional Development Agencies (RDAs) administration reductions.

3 Baseline and indicative savings based on MoD's current Administrative Costs Regime (ACR). The MoD will revise this regime to take account of wider administrative costs. See Chapter 2 text for details.

4 Regulators, independent bodies and public corporations have been excluded because they are excluded from the administration budget regime CLG Local Government and the Devolved Administrations do not have administration budgets.

A.17 There are several small departments and independent bodies whose budgets are set or reflected in the Spending Review. Table A12 sets out Resource DEL excluding depreciation for small and independent bodies.

Table A.12: Small and Independent Bodies Programme and Administration Budgets (exc depreciation) [1]

	£ million				
	Baseline[2]	Plans			
	2010-11	2011-12	2012-13	2013-14	2014-15
Departmental Programme and Administration Budgets					
Charity Commission	29	26	26	22	21
Export Credits Guarantee Department	24	23	23	22	20
Food Standards Agency	131	124	118	113	108
Government Equalities Office	69	65	62	55	47
Independent safety and economic regulators[3]	Neg	Neg	Neg	Neg	Neg
National Archives	37	35	33	32	31
National Savings and Investments	154	175	164	153	153
Office for Standards in Education	186	176	167	160	143
Office of Fair Trading	59	56	54	51	49
Supreme Court	5	5	5	5	4
UK Statistics Authority[4]	287	317	166	154	145
UK Trade and Investment	87	83	79	75	72
Northern Ireland Office	24	23	22	21	20
Scotland Office	8	8	8	7	7
Wales Office	6	6	6	6	5
Independent Bodies[5]	700	641	625	625	620
Total	**1,806**	**1,764**	**1,557**	**1,501**	**1,442**

1 Resource DEL less depreciation

2 As at all spending reviews, baselines exclude one-off and time-limited expenditure and therefore may not sum to total 2010-11 total.

3 The independent safety and economic regulators include: Office of Communications (OfCom), Office of Gas and Electricity Markets, Office of Rail Regulation, Postal Services Commission and the Water Services Regulatory Authority. With the exception of OfCom, they are not part of the Spending Review Process and, therefore, their plans reflect forecasted values.

4 UK Statistics Authority includes budget for Census

5 Independent Bodies include the House of Commons, House of Lords, Parliamentary and Health Service Ombudsman, Electoral Commission, Local Government Boundary Commission for England, Independent Parliamentary Standards Authority, and the National Audit Office. They are not, therefore, formally subject to the Spending Review process. Their plans reflect forecasted values.

A.18 Independent Bodies includes the House of Commons, House of Lords, Parliamentary and Health Service Ombudsman, Electoral Commission, Local Government Boundary Commission for England, Independent Parliamentary Standards Authority, and the National Audit Office. These bodies are independent of the executive. They are not, therefore, formally subject to the Spending Review process. Their spending does however count as public expenditure, and so the Spending Review reflects their forecast spending plans.

A.19 The independent safety and economic regulators include: Office of Communications (Ofcom), Office of Gas and Electricity Markets, Office of Rail Regulation, and the Water Services Regulatory Authority. With the exception of OfCom these regulators are not part of the Spending Review Process and, therefore, the Spending Review reflects their forecast spending plans. Ofcom is funded from a levy charged to businesses they regulate and through income from auctions of electromagnetic spectrum.

B Distributional Impact Analysis

B.1 The Government is committed to ensuring that decisions taken across the public sector are as transparent, accountable and fair as possible. This Annex is intended to help interested parties understand the distributional impact on households of tax, welfare and spending proposals. This is the first time the Government has undertaken such analysis for spending on public services. A new methodology has been developed to understand the impact of spending decisions on households. This has been combined with existing and long standing analysis of the impacts of taxes, benefits and tax credits on households. New ground is also being covered by forecasting and combining impacts across the entire four year period of the Spending Review.

Understanding distributional analysis

B.2 A distributional analysis of how spending is allocated across income groups can offer important policy insights to help inform policy decisions. However, this kind of static analysis can paint an incomplete picture of the actual outcomes of spending allocations on people's lives.

B.3 The Spending Review's allocations continue to focus support on those who need it most. However, they shift the focus of that support away from welfare payments to the services that deliver opportunities for social mobility in the longer term. As such a distributional analysis of how spending is allocated across income groups at a point in time only paints a partial picture of the decisions taken. It helps policy makers understand who is in receipt of services but does not explain how money is being spent or the long term impacts of those services. In addition, this analysis values public services by their input cost; it does not reflect the value people place on services, or how effective those services are at delivering outcomes. These and other limitations are discussed later in the Annex.

B.4 Despite this, the Government believes it is still helpful to publish this analysis in order to continue to move the debate and methodology forward and be transparent about the decisions made in this Spending Review.

B.5 This Annex is divided into 3 sections:

- changes to departmental and public services spending;
- changes to tax, tax credits and benefits; and
- combined tax and spending changes.

Changes to departmental and public services spending

B.6 This section sets out the impact on households of the departmental spending plans announced in this Spending Review.

B.7 The Government has not previously undertaken analysis on public service expenditure, because the lack of a clear market for publicly provided goods makes it difficult to estimate the value of services to households. There is some academic precedent for this type of analysis. The Office for National Statistics (ONS) publish an allocation of some public services to households in *The Effect of Taxes and Benefits on Household Income*.[1] This covers around 50 per cent of public expenditure broken down into high level categories. The ONS work and other papers which have sought to allocate public expenditure[2] have typically decided not to allocate total expenditure because of both data and theoretical limitations. This Annex builds on this work and is an attempt to promote this debate and explore some of these issues.

Methodology

B.8 The impacts shown in this section are based on information provided by departments from surveys of public service usage. This has been completed only for public services which are differentially used by households. Given that departments are yet to fully allocate their budgets to specific areas for the next four years, estimates have been used to break down expenditure into high-level blocks (e.g. schools, higher education). Where final decisions have been made, these have been included. Where estimates have been made, these should not be taken as implying decisions about final allocations.

B.9 The analysis therefore covers around two thirds of resource DEL expenditure excluding the Devolved Administrations, consisting of many of the services delivered by[3]:

- The Department of Health;
- The Department for Education;
- The Department for Work and Pensions;
- The Department for Communities and Local Government;
- The Department for Business, Innovation and Skills;
- The Department for Transport;
- The Department of Energy and Climate Change;
- Local Government[4];
- The Ministry of Justice; and,
- The Department for Culture, Media and Sport.

These areas have been selected as they represent services that people consume directly, so will best correspond to the experience people have of government spending. This analysis does not include expenditure by the Devolved Administrations.

[1] *The effects of taxes and benefits on household income*, 2008-09, Office for National Statistics, June 2010.
[2] For example, Sefton, T. (2002). *Recent changes in the distribution of the social wage*. CASE Paper 62, London School of Economics; Evandrou M., J. Falkingham, J. Hills and J. Le Grand (1993), *Welfare benefits in kind and income distribution*, Fiscal Studies, 14; Demery L, 2003: *Analyzing the incidence of Public Spending; The Impact of Economic Policies on Poverty and Income Distribution* Bourguignon F, Pereira da Silva, Luiz A.
[3] Further details can be found in Spending Review 2010: Distributional Impact Analysis – Data Sources.
[4] Local Government covers an analysis of some of the services delivered through local Government including social care and cultural services. Other grants given to local government are captured in the home department. More details can be found in the accompanying data sources document (Spending Review 2010: Distributional Impact Analysis – Data Sources).

B.10 The modelling does not include spending by: The Ministry of Defence, The Home Office, HM Treasury, The Cabinet Office, The Foreign and Commonwealth Office, The Department for International Development, HM Revenue and Customs, The Department for Environment, Food and Rural Affairs, The Law Officers' Department and Independent Bodies. The nature of the services provided by these departments means it is not possible to identify end-users as they benefit the population as a whole. For this reason central government administration costs have also been excluded. While it is not possible to model these areas, an average column has been added to the Chart B.2 which shows the average expenditure per household on these services. This overall approach is consistent with previous work in this area.[5]

B.11 Capital DEL makes up 13 per cent of total 2010-11 DEL. It is not possible to assess the beneficiaries of capital projects within this analysis because they have geographically specific and multi-generational benefits. Capital investment has therefore not been included, in line with other academic work[6]. Overall, the analysis captures just over two thirds of resource departmental spending and just under two thirds of the decreases in resource expenditure over the Spending Review period, excluding the devolved administrations.

B.12 The analysis presents the distribution of spending plans announced at the Spending Review across different household income groups. To do this, households are ordered by their income and then divided into five equally sized groups called quintiles. As households with more adults and children require higher levels of household income and expenditure to achieve the same standard of living, an internationally standard adjustment called equivalisation is used to ensure households are compared on an equal basis. The equivalisation process is consistent with HM Treasury's analysis on tax and benefit decisions[7].

B.13 Consumption data for public services is weak in many areas. Therefore, where possible, the analysis has been kept high level to limit the number of assumptions that have been made. This has been done by limiting the analysis to quintiles, rather than the standard deciles (10 equally sized groups). Modelling has also been limited to relatively aggregated areas of government expenditure.

B.14 The benefit accrued to the household is valued at the cost of providing the service weighted across households according to their usage. This is similar to the approach taken by the ONS. Attempts have been made to provide a more detailed and extended coverage of services. This allows the consideration of the initial benefits received by families (2010-11 expenditure), the proposed new plans introduced by the Spending Review and the new distribution of expenditure[8].

B.15 Whilst this input cost modelling improves the objectivity of the analysis, there are a number of caveats to this methodology. It:

- does not reflect the value people place on the services they consume nor how effective those services are at delivering desired outcomes (for example, low value programmes that are being stopped are measured at the same rate as high value programmes that are being kept);
- does not capture the significant efficiency and reform opportunities identified in this Spending Review, which allow services to be delivered with the same or better outcomes for less money (for example, cutting waste is measured the same as a reduction in services);

[5] *The effects of taxes and benefits on household income*, 2008-09, Office for National Statistics, June 2010. Sefton, T. (2002). *Recent changes in the distribution of the social wage*. CASE Paper 62, London School of Economics Evandrou M., J. Falkingham, J. Hills and J. Le Grand (1993), *Welfare benefits in kind and income distribution*, Fiscal Studies, 14

[6] Demery L, 2003: *Analyzing the incidence of Public Spending, The Impact of Economic Policies on Poverty and Income Distribution* Bourguignon F, Pereira da Silva, Luiz A . The exception to this is warm front provided by DECC; this scores as capital, as the public service is delivered by third party providers.

[7] Further details can be found in Spending Review 2010: Distributional Impact Analysis – Data Sources.

[8] Further details can be found in Spending Review 2010: Distributional Impact Analysis – Data Sources.

- only provides a static view of the monetary value households receive from benefits and does not capture incentives on individuals, for example, to return to work or retrain to receive a future higher income.

Results

B.16 The modelling shows that all households benefit substantially from expenditure on public services. The mapping of the baseline consumption of public services (benefits in kind), shown in Chart B.1, demonstrates that the consumption of services is skewed towards lower income households. Quintile one households on average benefit from around £221 per week, which amounts to over £10,000 of expenditure per year. Households in quintile five receive less than half of this, around £105 per week.

B.17 This is explained by the following:

- demographic factors: lower income groups contain a higher proportion of children and pensioners, who are the most intensive users of welfare services;
- other factors affecting need, such as long standing illness, which is reported more in lower income groups;
- the targeting and means testing of certain services, such as social housing, social care and free school meals; and
- differential use of private alternatives, including private schools and health care.

Chart B.1 Household consumption of benefits in kind by net equivalised income quintile (£ per week 2010-11)

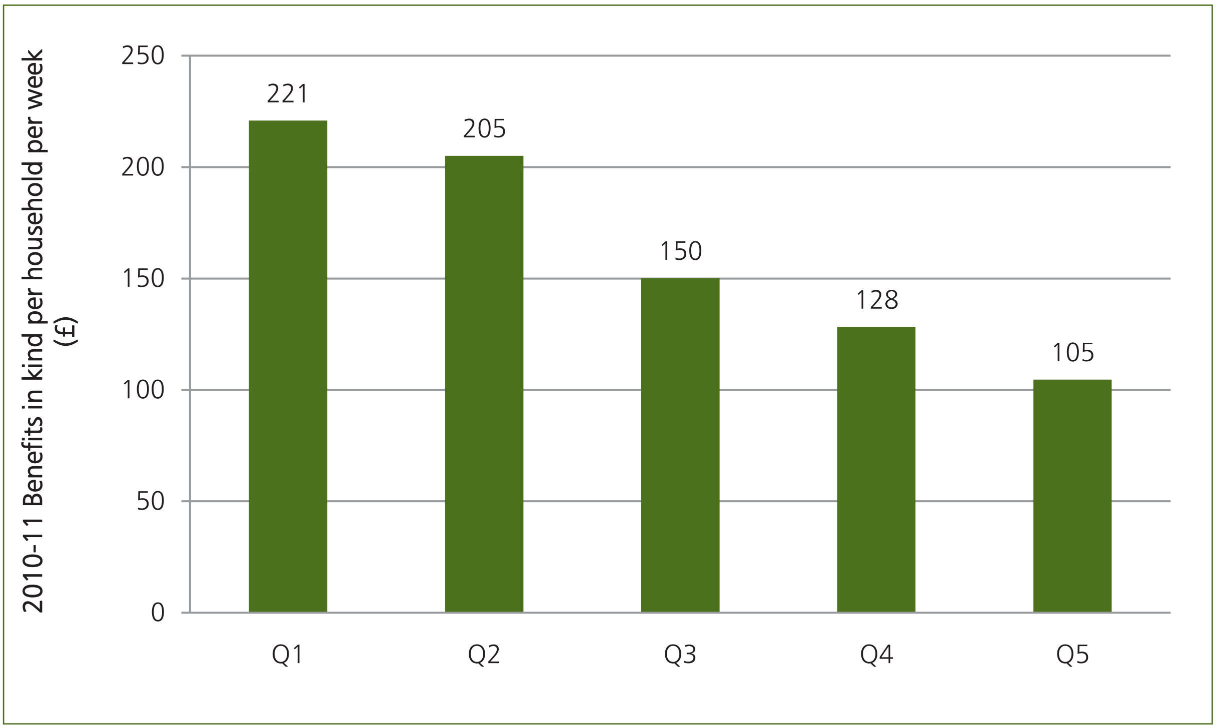


Table B.1: Weighted average annual net equivalised household income and benefits in kind by quintile

	Q1	Q2	Q3	Q4	Q5
Weighted average income	£13,800	£19,100	£24,200	£31,700	£48,700
Weighted average 2010-11 benefits in kind	£11,500	£10,700	£7,800	£6,700	£5,400

B.18 Table B.1 shows the weighted average net equivalised household incomes for the income quintiles and the weighted average annual benefits in kind households receive. Chart B.2 illustrates the mapping of benefits in kind across quintiles in 2010-11 and in 2014-15, the last year of the Spending Review period. Table B.2 shows the absolute change in benefits in kind that households will experience per week while Chart B.3 illustrates this change as a percentage of the initial value of benefits in kind consumed.

Chart B.2 Household consumption of benefits in kind by net equivalised income quintile in 2010-11 and 2014-15 (£ per week 2010-11 prices)

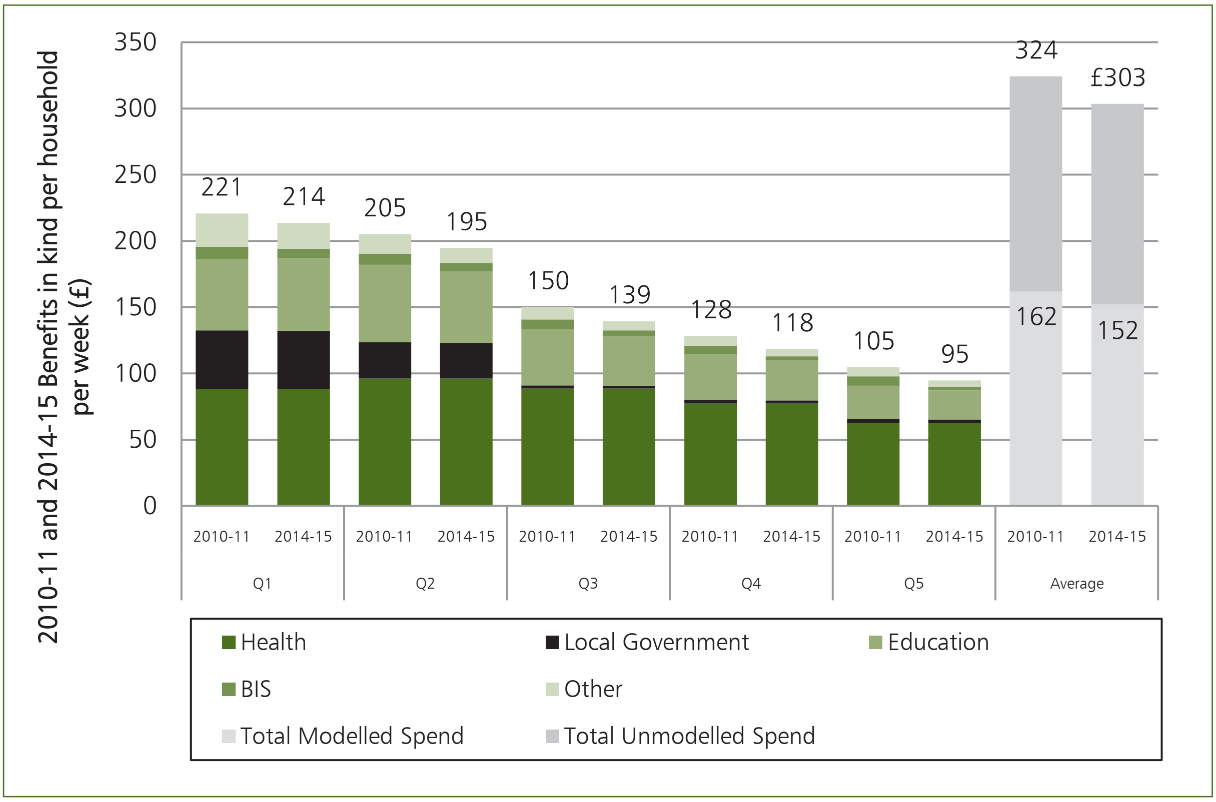


Table B.2: Table of absolute weekly changes in household benefits in kind by net equivalised income quintile

	Q1	Q2	Q3	Q4	Q5
Absolute weekly change in benefits in kind	£7	£10	£11	£10	£10

B.19 These results are partly driven by policy changes described in this Spending Review including:

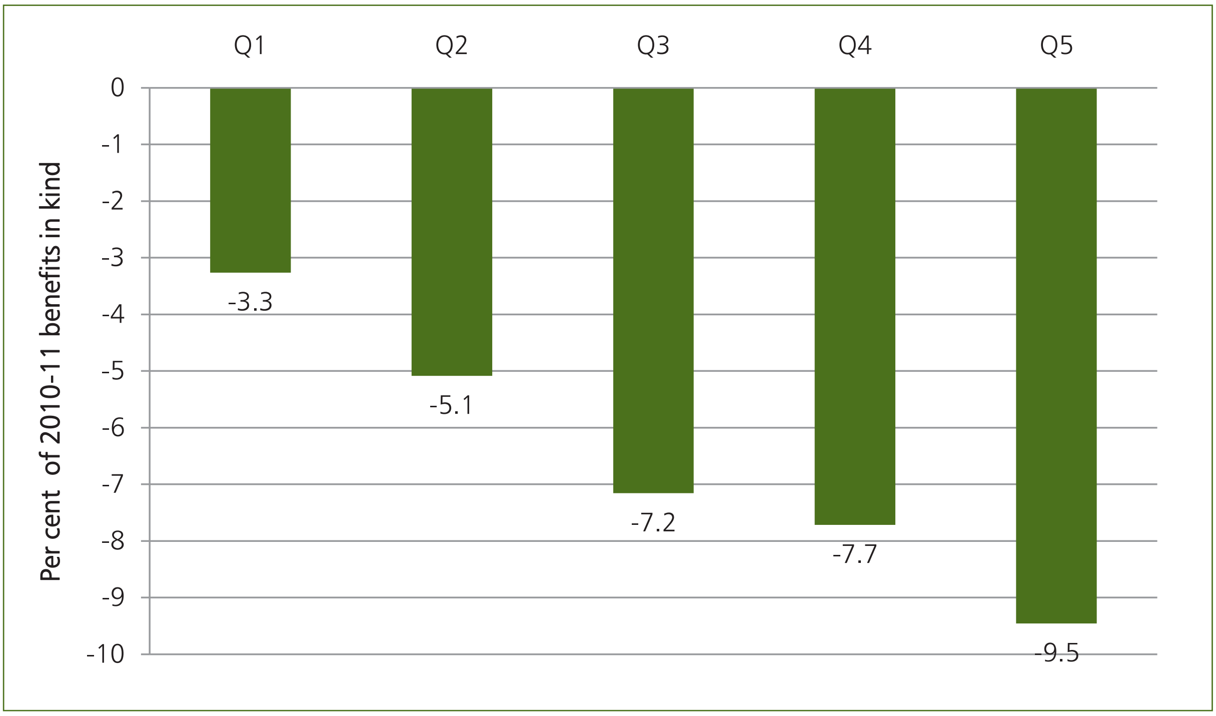
- A £2.5 billion pupil premium, on top of maintaining per pupil funding in cash terms, will provide additional support for disadvantaged pupils;
- 15 hours a week of early years education and care will be extended to disadvantaged 2 year olds from 2012-13, in addition to the continued universal entitlement to 15 hours for all 3 and 4 year olds implemented by the Coalition Government;
- reform to Higher Education and Further Education funding;
- an additional £2 billion by 2014-15 to support social care; and
- real terms increases in overall NHS funding in each year of the Spending Review.

B.20 Table B.2 shows the absolute change in benefits in kind that households will receive per week. These results show that quintile one will experience the lowest change across all income quintiles. This result is driven by the combination of the redistributive effect of the pupil premium and the protection of key services for low income households such as early years provision and social care spending.

B.21 As discussed in the methodology section, it is not appropriate to model all public expenditure across households, specifically those areas that are aligned to public goods, e.g. environmental protection and central government administration. However, all households benefit from this expenditure. The last, 'average', column of Chart B.2 therefore shows average expenditure per household for modelled and unmodelled expenditure which illustrates the total change in resource spending households will receive.

B.22 In order to understand the relative impacts of the spending plans, it is useful to consider these changes as a proportion of the initial benefits in kind consumed by households. Chart B.3 illustrates this result. Quintile one has the lowest proportional change and quintile five has the highest.

Chart B.3 Changes in benefits in kind as a percentage of 2010-11 household consumption of benefits in kind.



Methodological limitations and further work

B.23 These results represent new analysis for the Government. The methodology will continue to be refined and updated as work progresses and to try to overcome a number of methodological difficulties. These are discussed below.

Efficiency and reform

B.24 The Spending Review sets out an ambitious programme to identify efficiencies and reforms in delivering public services. This gives the potential to deliver the same, or better, outcomes and services to users at a lower cost. With the current methodology, any efficiency saving made would score as a reduced service to users, even where these have no clear impact on service quality. For example, energy savings from turning the lights off at night would be represented as a loss to households.

Producer impacts

B.25 This analysis attributes all of the effects of the Spending Review to consumers rather than producers. This means, for example, that a short term freeze on teachers' pay would show as a loss to families with children. An alternative would be to model short term pay freezes as impacting on teachers rather than their students. This would change the distribution of the impact.

Incidence

B.26 This type of analysis also does not fully capture the incidence of reductions in expenditure on public services.[9] For some public expenditure, the direct benefits are split between the individual service consumer and others. An example might be the benefits received by employers from adult skills programmes. If funding is reduced, some of the costs would therefore fall to employers, rather than households, but this analysis would show households experiencing the full loss.

[9] Marical F., Mira d'Ercole M., Vaalavuo M. and Verbist G. (2006) *Publicly-provided Services and the Distribution of Resources*, OECD Social, Employment and Migration Working Paper No. 45, OECD, Paris.

B.27 The analysis also does not capture the insurance benefits that public services provide to households. For example, free healthcare provided by the NHS benefits all households even if they do not fall ill because of the money saved in paying for private healthcare insurance. The benefits of health spending are therefore spread more widely than an analysis of those directly using the NHS implies. This, in turn, would change the distributional consequences of changes in health expenditure.

Lifecycle effects

B.28 Finally, the analysis presents a static view of benefits received by households at a point in time.[10] This limits its usefulness. In particular:

- Households' position in the income distribution could be expected to change over time. For example, parents of young children themselves tend to be younger, and as such have often not reached their full earnings potential. This skews them disproportionately into lower income quintiles, from which they could be expected to rise as they get older.
- Variations in distribution could be expected to be smoothed over peoples' lifetimes. This is because the services people consume are partly a product of their age, so consumption patterns vary for an individual over time. For example, older people are shown not to benefit from education spending now, yet have as children benefited from such spending.
- Policy decisions need to take account of long term benefits to households. For example, a significant body of evidence suggests that early years funding can give high returns in tackling child poverty. This model only shows the annual monetary value to households rather than future returns.
- The economic and multi-generational benefits of capital expenditure cannot be fully captured by analysis that looks at distributional impacts at just two points in time, four years apart. For example, building a new road today will deliver economic and social benefits to people for decades to come.

Changes to taxes, tax credits and benefits

B.29 This section sets out the impact on individuals of the benefit and tax credit changes announced in this Spending Review, along with the cumulative impact of these changes and Budget measures. This includes tax, tax credit and benefit changes (such as changes to National Insurance Contributions) that were announced in the March 2010 Budget or earlier, where the Coalition Government will be introducing the relevant legislation.[11]In comparison with the previous section's distributional analysis of public services, with this form of government expenditure it is possible to more accurately identify beneficiaries and quantify their monetary gains and losses as a result of policy changes. Significant analytical challenges remain, as will be detailed, and as a result the analysis here is necessarily simplified. Nonetheless, it serves as a useful guide to changes to the impact of tax, tax credit and benefit payments received at different income levels.

Methodology

B.30 At the June Budget, the Government took the unprecedented step of publishing distributional analysis of tax, tax credit and benefit changes. The Government stated that for future fiscal events it would consider how best to present the impact of changes consistent with the aim of transparency. Since then the Institute for Fiscal Studies has published new analysis of the impact of tax, tax credit and benefit changes, and the Government has received feedback from a number of external organisations on its analysis.

[10] Preston, I., & O'Dea, C. (2010). *The Distributional Impact of Public Spending in the UK*. 2020 Public Services Trust.
[11] A full list of measures it has been possible to include in the analysis is provided in Spending Review 2010: Distributional Impact Analysis – Data Sources.

B.31 At the June Budget, the Government took the decision to present analysis for 2012-13. Publishing analyses of tax, tax credit and benefit changes far into the future may not be representative of the impact of Government policy. This is because the Government will take a view on tax and welfare policy based on the emerging fiscal position in future fiscal events.

B.32 For example, the Coalition Government has expressed its aim to increase the personal allowance to £10,000, which will benefit some households towards the bottom of the income distribution. It is also not possible to model the expected distributional impacts of the Universal Credit. This policy is at an early stage of development and key policy parameters are yet to be finalised. These will determine the expected payments to households and therefore the expected distributional impacts.

B.33 In addition, economic assumptions on which analysis of this kind is based inevitably become more uncertain the further ahead the model goes. Behavioural and macroeconomic effects, which are not captured by the model, are also likely to become more significant over time. The analysis in this section therefore only shows impacts in 2012-13, although the final section, which brings together the combined impact on individuals of Spending Review decisions does present analysis for 2014-15, although at a less disaggregated quintile level.

B.34 The HM Treasury modelling approach follows a well-established methodology, similar to that used by external commentators, which includes all measures where there is sufficiently robust data available to attribute changes in tax, tax credits or benefits to individuals. It does not include measures where there is insufficient information to robustly assess the impact of changes in this way.

Results

B.35 The impacts shown in this section are simulated using HM Treasury's tax and benefit model and assume 100 per cent take up of tax credits and income-related benefits. The policies that can be modelled account for around two-thirds of tax, tax credit and benefit changes coming into effect in 2012-13.

B.36 The following charts present the impact across the income distribution of Budget measures (including measures that were announced in the March 2010 Budget or earlier on which the Coalition Government will be introducing legislation) along with Spending Review announcements. To do this, households are ordered by their income and then divided into 10 equally sized groups called deciles. As households with more adults and children require higher levels of household income and expenditure to achieve the same standard of living, an internationally standard adjustment called equivalisation is used to ensure households are compared on an equal basis.

B.37 An alternative way of presenting this analysis would be by expenditure decile. This is because some households may be using savings or borrowing to finance their current expenditure. In particular, when considering the distributional impact of changes in expenditure taxes, such as the increase in VAT announced at the June Budget, the Office for National Statistics and others have suggested that expenditure deciles may provide a more relevant distributional split of households.[12] Analysis carried out at the Budget showed that the changes in VAT and duties were progressive on this basis. As the income decile analysis in this Annex includes the impact of expenditure taxes, it may therefore overstate the impact on less well off households of tax, tax credit and benefit changes in 2012-13.

[12] *The effects of taxes and benefits on household income, 2008-09*, Office for National Statistics, June 2010

Chart B.4 Impact of Spending Review and Budget measures (including pre-announcements) in cash terms (£ per year) by income distribution (2012-13).

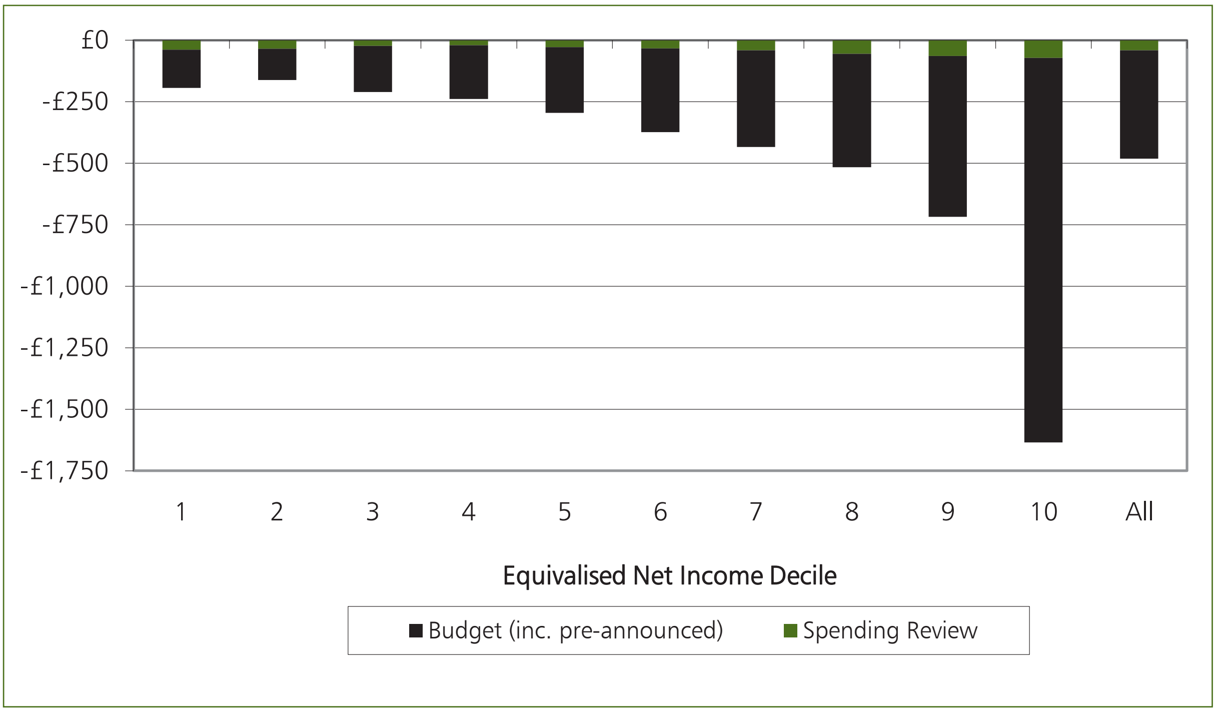
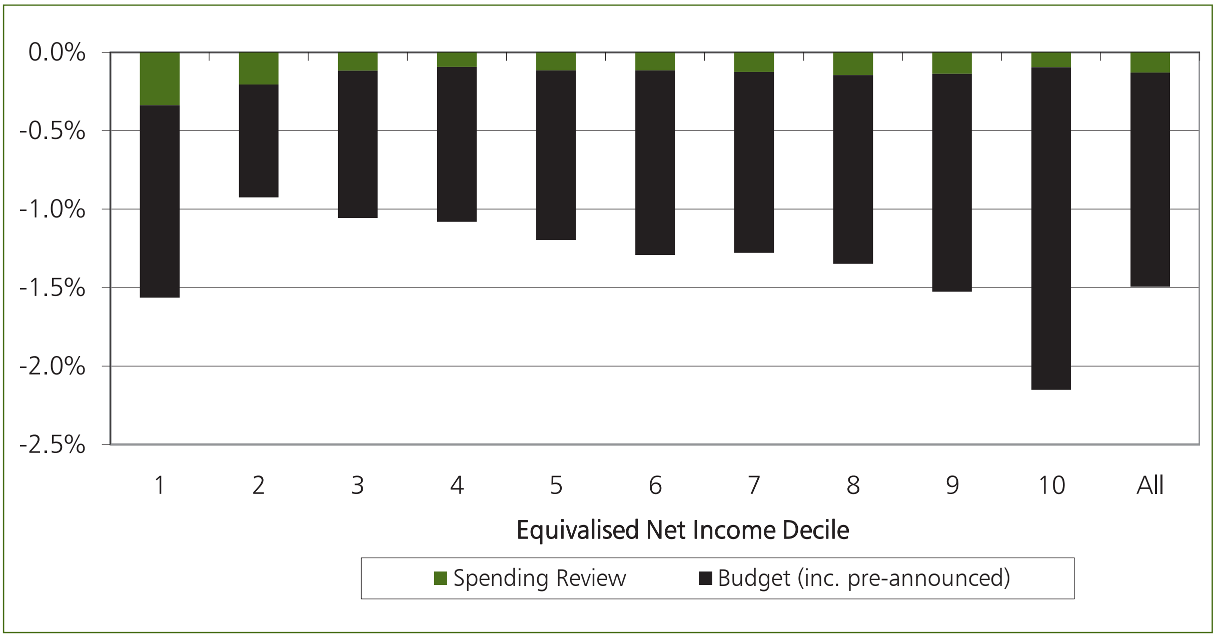


Chart B.5 Impact of Spending Review and Budget measures (including pre-announcements) as a per cent of net income by income distribution (2012-13).



B.38 It should be noted that the bottom decile contains many households with temporarily low incomes, for whom income based analysis, as opposed to expenditure based analysis, may not give an accurate picture of living conditions. In this decile, around 40 per cent of households contain an adult that is self employed or a student. While some of these households will have permanently low incomes, many will not. In contrast, in the second decile, only around 20 per cent of households contain an adult in one of these groups.

Impact on Child Poverty

B.39 The Spending Review and the June Budget have both taken action to protect low-income families from the impact of changes to reduce welfare spending. This was achieved by freezing rates of Child Benefit and withdrawing Child Benefit from those paying higher rate Income Tax to partly fund above indexation increases to the Child Tax Credit. These steps have ensured that there is no measurable impact on child poverty from all modelled Budget and Spending Review changes to 2012-13.[13]

Combined tax and spending changes

B.40 This final section brings together the distributional analysis for both the change in departmental expenditure affecting public services and that affecting changes to taxes, tax credits and benefits.

Methodology

B.41 There are a number of technical issues with presenting a combined picture. The problems with quality of data mean that it is only possible to estimate departmental and public services spending in income quintiles compared to deciles for taxes and benefits. The different modelling approaches taken for departmental spending and benefits and tax credits mean that summing the effects may not be entirely robust in all cases.

B.42 In order to demonstrate the combined impact on individuals of Spending Review decisions, it is important to show the joined-up impact of tax, tax credit and benefit changes, alongside spending decisions. Since the Spending Review sets out a path for all public spending to 2014-15 it is desirable to look at a combined distributional analysis of all policies for this year. To achieve this while minimising the scope for inaccuracies, the analysis of tax, tax credits and benefit policies in this section is extended to 2014-15, but using the same less disaggregated quintile level as the departmental spending analysis.

B.43 The modelling of distribution tax, tax credit and benefit impacts in this section contains three additional policies, all saving over £1 billion pounds per year by 2014-15. These are:

- limiting Pensions Tax Relief to £50,000;
- introducing objective medical assessments for all DLA claimants; and
- time limiting contributory ESA to one year for those in the Work Related Activity Group.

B.44 These measures were excluded from the distribution analysis in the previous section because it is not possible to formulate robust assumptions about how policy impacts would be felt at an individual level. For example, the introduction of objective medical assessments for DLA claimants is excluded because it is not possible to model deterministically how individual claimants might fare against medical assessment. Measures to time limit contributory ESA to one year for the Work Related Activity Group and to limit Pensions Tax Relief are excluded for similar reasons.

B.45 However, given the scale of savings attributed to these three measures and, in particular the less disaggregated quintile level analysis being presented in this section, assumptions have been made to allow their inclusion. Rather than attempting to attribute gains and losses at an individual level as before, this is now done by apportioning to quintiles the Exchequer savings from these measures according to information on the numbers of people affected in each quintile. In addition to these three policies our standard methodology also allows us to model the impact of the household benefit cap which will come into effect in 2013-14.

Results

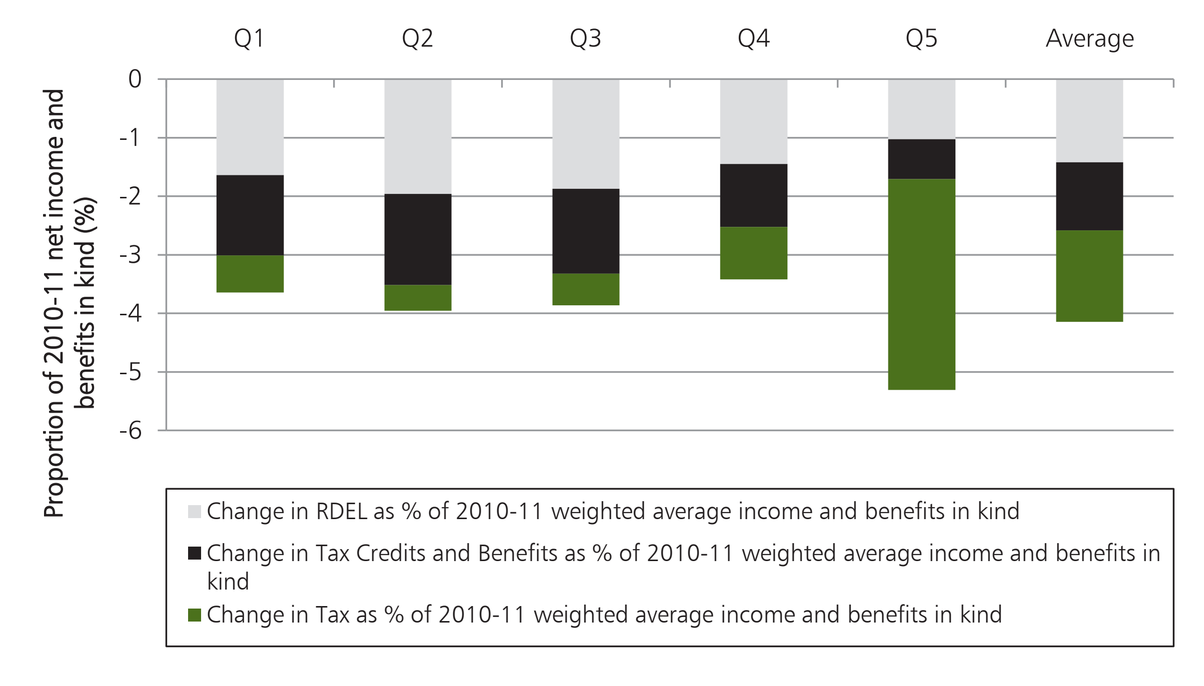
B.46 Chart 1.F shows the percentage changes in income and benefits in kind, by income quintiles, from changes to tax, tax credits and benefits and spending announced in this

[13] Estimated with HM Treasury's tax and benefit microsimulation model, based on 2007-08 Family Resources Survey, projected to 2011-12 and 2012-13.

Spending Review, the June Budget and pre-announced measures in the March 2010 Budget or earlier on which the Coalition Government will be legislating. This includes modelled areas of resource spending reductions within the £6 billion efficiency savings made earlier this year[14], departmental expenditure changes, benefit and tax credit changes and tax changes.

B.47 This chart represents the overall average modelled impact of the consolidation by income quintile as a percentage of net equivalised households income including benefits in kind.

Chart B.6 Impact of the consolidation on households as a per cent of (2010-11) net income (including household benefits in kind)



Next steps

B.48 This Annex publishes for the first time the combined impact on households from the changes both to services and benefits announced in this Spending Review. However, it also notes and highlights some of the methodological problems in trying to make this assessment. In order to be able to continue to refine this analysis, the Government would welcome an open dialogue on how the data and methodology can be improved.

[14] Further details can be found in Spending Review 2010: Distributional Impact Analysis – Data Sources.

List of Abbreviations

AARG	Average Annual Real Growth
ACR	Administrative Costs Regime
ALB	Arms Length Body
AME	Annually Managed Expenditure
AV	Alternative Vote
BBA	British Bankers' Association
BIS	Department for Business, Innovation and Skills
BSF	Building Schools for the Future
CDEL	Capital Departmental Expenditure Limit
CJS	Criminal Justice System
CLG	Department for Communities and Local Government
CPI	Consumer Prices Index
CPS	Crown Prosecution Service
CRB	Criminal Records Bureau
CRC	Carbon Reduction Commitment
CTC	Child Tax Credit
DAs	Devolved Administrations
DCMS	Department for Culture, Media and Sport
DECC	Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
DEL	Departmental Expenditure Limit
DFE	Department for Education
DFID	Department for International Development
DFT	Department for Transport
DH	Department of Health
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
ECGD	Export Credits Guarantee Department
EMA	Educational Maintenance Allowance
ERDF	European Regional Development Fund
ERG	Efficiency and Reform Group
ESA	Employment and Support Allowance
EYF	End Year Flexibility
FCO	Foreign and Commonwealth Office
FE	Further Education
GAD	Government Actuary's Department
GDP	Gross Domestic Product
GNI	Gross National Income
GP	General Practitioner

HA	Highways Agency
HE	Higher Education
HMRC	Her Majesty's Revenue and Customs
IMF	International Monetary Fund
IPSPC	Independent Public Service Pension Commission
LDA	London Development Agency
LEPs	Local Employment Partnerships
LG	Local Government
LODs	Law Officers' Departments
MOD	Ministry of Defence
MOJ	Ministry of Justice
NAO	National Audit Office
NCS	National Citizen Service
NEST	National Employment Savings Trust
NDA	Nuclear Decommissioning Authority
NDPB	Non-Departmental Public Body
NHS	National Health Service
NIO	Northern Ireland Office
NPV	Net Present Value
OBR	Office for Budget Responsibility
ODA	Overseas Development Assistance
OECD	Organisation for Economic Cooperation and Development
OFCOM	Office of Communications
OFGEM	Office of the Gas and Electricity Markets
OFQUAL	Office of Qualifications and Examinations Regulation
OGC	Office of Government Commerce
ONS	Office for National Statistics
ORR	Office of Rail Regulation
PAYE	Pay As You Earn
PEX	Public Expenditure Cabinet Committee
PFI	Private Finance Initiative
PSCE	Public Sector Current Expenditure
PSCR	Public Sector Current Receipts
PSGI	Public Sector Gross Investment
PSNB	Public Sector Net Borrowing
PSND	Public Sector Net Debt
PSNI	Public Sector Net Investment
PWLB	Public Works Loan Board
QIPP	Quality, Innovation, Production and Prevention
R&D	Research and Development
RDA	Regional Development Agency
RDEL	Resource Departmental Expenditure Limit
RGF	Regional Growth Fund
RPI	Retail Prices Index
RSG	Revenue Support Grant

SDSR	Strategic Defence and Security Review
SFO	Serious Fraud Office
SHA	Strategic Health Authority
SIA	Single Intelligence Account
SME	Small and Medium Enterprises
TDEL	Total Departmental Expenditure Limits
TFL	Transport for London
TME	Total Managed Expenditure
TSoL	Treasury Solicitor's Department
UKBA	UK Border Agency
UKTI	UK Trade and Investment
WTC	Working Tax Credit
WPAs	With Profit Annuities

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