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

![Chart](image)

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

<table>
<thead>
<tr>
<th>Category</th>
<th>£ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Interest</td>
<td>100</td>
</tr>
<tr>
<td>Education</td>
<td>150</td>
</tr>
<tr>
<td>Health</td>
<td>175</td>
</tr>
<tr>
<td>Defence</td>
<td>100</td>
</tr>
<tr>
<td>Welfare</td>
<td>130</td>
</tr>
<tr>
<td>Transport</td>
<td>25</td>
</tr>
<tr>
<td>Housing and Environment</td>
<td>150</td>
</tr>
<tr>
<td>Law and order</td>
<td>50</td>
</tr>
<tr>
<td>Other spending</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total government expenditure</strong></td>
<td><strong>£697bn</strong></td>
</tr>
<tr>
<td><strong>Total government receipts</strong></td>
<td><strong>£548bn</strong></td>
</tr>
</tbody>
</table>

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 consolidation¹, and are supported by the OECD² and the IMF³.

¹G20 Finance Ministers’ communiqué, June 2010.
²Angel Gurría, Secretary General of the OECD, 22 June 2010.
³United 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;¹⁴

- 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

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¹⁴ *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, 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; 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) 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.

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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

<table>
<thead>
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</thead>
<tbody>
<tr>
<td><strong>CURRENT EXPENDITURE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resource Annually Managed Expenditure</td>
<td>294.6</td>
<td>307.8</td>
<td>319.5</td>
<td>329.1</td>
<td>344.0</td>
</tr>
<tr>
<td>Resource Departmental Expenditure Limits</td>
<td>342.7</td>
<td>343.3</td>
<td>345.0</td>
<td>349.6</td>
<td>348.7</td>
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<tr>
<td>Public sector current expenditure</td>
<td>637.3</td>
<td>651.1</td>
<td>664.5</td>
<td>678.6</td>
<td>692.7</td>
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<tr>
<td><strong>CAPITAL EXPENDITURE</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Annually Managed Expenditure</td>
<td>7.8</td>
<td>7.3</td>
<td>6.7</td>
<td>6.4</td>
<td>6.9</td>
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<tr>
<td>Capital Departmental Expenditure Limits</td>
<td>51.6</td>
<td>43.5</td>
<td>41.8</td>
<td>39.2</td>
<td>40.2</td>
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<tr>
<td>Public sector gross investment</td>
<td>59.5</td>
<td>50.7</td>
<td>48.5</td>
<td>45.6</td>
<td>47.1</td>
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<td><strong>TOTAL MANAGED EXPENDITURE</strong></td>
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<tr>
<td></td>
<td>696.8</td>
<td>701.8</td>
<td>713.0</td>
<td>724.2</td>
<td>739.8</td>
</tr>
</tbody>
</table>

**Spending Envelope for Spending Review 2010**

<table>
<thead>
<tr>
<th></th>
<th>£ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>641.6</td>
</tr>
</tbody>
</table>

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 Expenditure: 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. 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.

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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.
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.

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9Spending 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, 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 Waimingild
- 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 – replacement 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 Midlands
- A11 – upgrading the remaining section to provide a continuous dual carriageway link between Norwich & the M1
- 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, 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.

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.

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

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.

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.

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.

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

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.\textsuperscript{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.

\textsuperscript{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. 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.

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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

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.
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.

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.

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.

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.

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.\textsuperscript{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\textsuperscript{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,\textsuperscript{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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\textsuperscript{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.

\textsuperscript{15}Compared to 2010-11 baselines increasing in real terms.

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.