Summary

The results of the Comprehensive Spending Review were published on 20th October. Chancellor George Osborne has announced the government's four-year Spending Review to Parliament, revealing some of the deepest cuts in public spending in decades.

The key announcements:

- About 490,000 public sector jobs likely to be lost
- Average 19% four-year cut in departmental budgets
- Structural deficit to be eliminated by 2015
- £7bn in additional welfare budget cuts
- Police funding cut by 4% a year
- Retirement age to rise from 65 to 66 by 2020
- NHS budget protected; £2bn extra for social care
- Schools budget to rise every year until 2015
- Regulated rail fares to rise 3% above inflation
- Permanent bank levy

A detailed outline of the proposals is set out below.

Background

In the Emergency Budget of June 2010 the Chancellor outlined the Government’s deficit reduction plan which focuses on making significant cuts to public spending. It was announced that most Government departments would have to cut 25% of their budgets over the lifetime of the parliament, and that a wage freeze would hit all public sector staff earning over £21,000.

Since the Emergency Budget, progress has been made on reforming public sector pensions through the publication of the “Hutton Report” - the interim report from the Independent Public Service Pensions Commission. It argued that the most effective short term reform would be to increase members’ contributions to their pension pots – a reform that many expected would be announced in the CSR.

On 14 October the Government also published a list of 192 “quangos” to be scrapped and it was announced that a further 118 bodies would be merged and another 171 “substantially” reformed.
The Comprehensive Spending Review

The Chancellor set out the most significant programme of public spending cuts in decades. Presenting his Spending Review to Parliament, he announced drastic reductions in the budgets of a number of key areas of public sector provision, and the loss of 490,000 public sector jobs. According to the Chancellor, the cuts will average out at approximately 19% per Department over the next four years, less than the Government’s had originally suggested.

George Osborne said: “Today is the day when Britain steps back from the brink...a day of rebuilding, when we set out a four year plan to put our public services and welfare state on a stable footing”.

**Total public spending** is set to increase from £651bn to £693bn by 2014/15, the Chancellor announced today. There would also be an increase in total capital expenditure. Mr Osborne noted that the UK had the largest structural deficit in Europe, meaning that £43bn was spent each year on debt interest.

Plans inherited from the past Government envisaged the national debt ratio still rising in 2014, he noted. The action taken since May has taken Britain out of the ‘danger zone’, with reductions on in-year budgets.

However, he stressed that over the course of this spending review, there would be a **£5bn decrease in debt interest payments**. This figure was the equivalent to 16 new hospitals or the annual salaries of 100,000 teachers, he observed. There would be increases in infrastructure spending over this period, he stated. Mr Osborne said that he would not cut projects that had a clear benefit to the economy. In real terms, public spending would be at the same level as it was in 2008.

He outlined three principles – ‘reform’ to ensure an end to waste, ‘fairness’ in a way that was affordable to taxpayers and a focus on ‘growth’, with investments in areas most likely to achieve growth.

The public sector needed to change to reflect the aspirations of today’s population, he said. The spending review would be underpinned by far reaching public sector reform, after ‘squeezing every other penny of waste from waste’.

Winners and Losers

Among the biggest losers from the decisions set out today were **social housing, university funding and the welfare budget**, which took a significant hit of around £7bn, in addition to the £11bn per year announced earlier this year. Local authorities will see their funding cut by 7.1% per year over the next four years, while police numbers are likely to be significantly affected, with spending on police cut by 4% per year over four years.

The Foreign Office budget is being cut by 24%, the Treasury is being reduced by a third, and the Business Department will be cut by 7.1% a year, although the science budget will be frozen. Defra’s funding will fall by 8% per year, while that of the Department of Energy and Climate Change will be reduced by 5% a year. Other departments fared better - notably, the Ministry of Defence emerged with cuts of only 8%. Health and international development have had their budgets increased, although the latter will be reformed to focus on conflict resolution.

The Chancellor set out plans for a **permanent tax levy on banks**, and also announced that the **state pension age will rise to 66 by 2020**, four years earlier than expected.

Recognising the pain inherent in his announcements, the Chancellor said: “It is a hard road but it leads to a better future”. He set out that all spending decisions were based around the principles of reform, fairness and growth, and pledged £6bn of “efficiency savings” across Whitehall, leading to a forecast of significant public sector job losses.

There were some pockets of good (or not so bad) news scattered throughout the announcement. **School funding will be protected, as will Crossrail, apprenticeships, some adult social care, and the child tax credit.** But these winners have led to deeper pain elsewhere, and some have faced tighter settlements than they may have been expecting - 6% per year in Ken Clarke’s Ministry of Justice, leading to a probable reduction in prison places and severe cuts in the criminal justice system.

The Chancellor also announced that each Department will be publishing a business plan in November, setting out the detail of many of these cuts.

Other Key Announcements

- Funding for adult apprenticeships will be increased by £250m by 2014-15 relative to previous government spending.
- Colleges will be ‘freed from bureaucracy’ by simplifying the funding, streamlining Arms length bodies and abolishing central targets, and will improve the information and advice for learners. Also in FE, introduce reforms to create a better balance between state and individual who benefits from training and 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. FE students over 24 studying for a level 3 qualification will be asked to pay fees.

- In HE, the government will build on the recent recommendations for Lord Browne to reform student finance
- Banks - a permanent bank levy will be introduced and an international initiative to take forward work on a Financial Activities Tax. The Government will also monitor tax receipts from banks to ensure they do not engage in tax avoidance.
- Await Lord Hutton’s final report in spring 2010 on reforming public pensions to determine precise reforms required.
- £1billion committed to establish a Green Investment Bank
- Support flood defence work (reduction)
- NEST – funding for the introduction of auto enrolment from 2012 and the establishment of NEST to help individuals save for their retirement.
- Payout of £1.5 billion for Equitable Life policyholders.

**Key Overview**

- Total spending to reach **693bn** by 2014/15
- Debt interest payments hit **£63bn** in 2014/15
- **£6bn** of Whitehall administrative savings
- Over four years **490,000** jobs will go in the public sector
- Administrative budgets of every main Government department will be cut by **1/3**
- Spending on NHS and schools to be protected
- Cabinet Office **£55m** cut in budget
- Treasury budget to be cut by **33%**
- Councils budget to reduce by **7.1%** every year for the next 4 years
- **£2bn** additional funding for social care
- **8%** reduction to MOD budget
- **24%** cut to FCO budget
- International Development budget will rise to **£11.5bn**
- Police spending to fall by **4%** per year
- Home Office budget reduction of **6%** every year
- Ministry of Justice **6%** annual reduction in budget
- HMRC budget savings of **15%**
- Welfare savings of **£7bn** a year
- State pension age to rise to **66** in 2020
- **50%** increase in adult apprenticeships budget
- BIS **7.1%** annual saving, but science budget protected
- **£1bn** for CCS demonstration
- **£1bn** set aside for Green Investment Bank
- DECC budget will fall by **5%** a year
- DEFRA budget will fall by **8%** annually
- DCMS budget will reduce to **1.1bn** by 2014/15
- **15%** cut in arts funding
- Over next 4 years **£30bn** to be invested in transport projects, including Crossrail
Royal Household Budget to be cut by 14%

MPs final salary scheme expected to end

**Links**

http://www.bbc.co.uk/news/uk-politics-11569160

**Spending**

The Chancellor announced:

Public spending would be:

- £651 billion Next year
- £665 billion in 2012
- £679 billion in 2013
- £693 billion in 2014/15

Capital and running cost spending would be:

- £702 billion Next year
- £713 billion in 2012
- £724 billion in 2013
- £740 billion in 2014/15