



HM TREASURY

SPENDING REVIEW 2010



SPENDING REVIEW 2010

Presented to Parliament
by the Chancellor of the Exchequer
by Command of Her Majesty

October 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

¹Subject 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 depreciation¹)

	£ billion					Per cent
	Baseline ²		Plans			Cumulative real growth
	2010-11	2011-12	2012-13	2013-14	2014-15	
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 measures³	320	2,555	5,990	7,040
<i>Contributory Employment and Support Allowance: time limit for those in the Work Related Activity Group to one year</i>	0	1,025	1,530	2,010
<i>Housing Benefit: increase age limit for shared room rate from 25 to 35</i>	0	130	225	215
<i>Total household benefit payments capped on the basis of average take-home pay for working households</i>	0	0	225	270
<i>Disability Living Allowance: remove mobility component for claimants in residential care</i>	0	60	130	135
<i>Savings Credit: freeze maximum award for four years from 2011-12</i>	165	215	260	330
<i>Support for Mortgage Interest: extend temporary changes to waiting period and capital limit until January 2012</i>	-70	-20	0	0
<i>Cold Weather Payments: increase rate permanently to £25 from November 2010</i>	-50	-50	-50	-50
<i>Council Tax Benefit: 10% reduction in expenditure and localisation</i>	0	0	485	490
<i>Child Benefit: remove from families with a higher rate taxpayer from January 2013</i>	0	590	2,420	2,500
<i>Working Tax Credit: freeze in the basic and 30 hour elements for three years from 2011-12</i>	195	415	575	625
<i>Working Tax Credit: reduce payable costs through childcare element from 80% to 70% restoring 2006 rate</i>	270	320	350	385
<i>Child Tax Credit: increase the child element by £30 in 2011 and £50 in 2012</i>	-190	-510	-545	-560
<i>Working Tax Credit: increase working hours requirement for couples with children to 24 hours</i>	0	380	385	390
<i>Child and Working Tax Credits: use real time information</i>	0	0	0	300
Other AME policy	335	1,285	2,770	3,515
<i>Public sector pensions: increase in employee contribution rates</i>	0	160	1,270	1,760
<i>Renewable Heat Incentive: efficiency savings</i>	5	15	45	105
<i>Carbon Reduction Commitment: no recycling of revenues</i>	715	730	995	1,020
<i>Royal Mint: reduction in metal cost for coinage</i>	10	10	10	10
<i>Equitable life payments⁴</i>	-520	-315	-210	-100
<i>Capitalisation: support for local authority restructuring</i>	-240	0	0	0
<i>Public Works Loan Board: interest rate increase</i>	150	310	380	450
<i>TfL Metronet: replace borrowing with central government grant</i>	325	300	200	185
<i>Right to Buy: surrender full receipts to Exchequer receipts</i>	40	50	55	60
<i>Housing Revenue Account System: reform</i>	25	25	25	25
<i>Northern Ireland Reinvestment and Reform Initiative</i>	-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.