Comprehensive Spending Review

October 2010

The result of the Government's Comprehensive Spending Review was revealed yesterday. This allocates the resources available to all Government departments for the next four financial years until 2014/15, although the consequences of some measures will be felt much longer. It should be considered together with the statements on Defence and Energy policy made earlier in the week and the proposals to reform public bodies for a complete picture of Coalition policy, but the detail will only become apparent as the necessary legislation is drafted and the wider consequences will not be fully understood for some time. This is our summary of the main points.

Headlines:

- **state pension age** will equalise for women and men at 65 by November 2018 and rise to 66 for both in April 2020.
- **490 thousand jobs are expected** to be lost from the public sector overall
- **regulated rail fares** to rise 3% above inflation
- **Permanent bank levy** and more money to tackle tax evasion
- **Average 19% four-year cut** in departmental budgets although some fare better than others, with the NHS and schools being protected at the expense of £7bn additional cuts in the welfare budget.

Generally:

Bank Levy: This is expected to raise £2.5bn annually and legislation being published today is expected to be in place by the end of the year. £900m is being allocated to tackle tax evasion.

Transport: There will be a rise in regulated rail fares to 3% above RPI from 2012. This will enable Crossrail to go ahead, and support £6bn capital expenditure by Transport for London on the London Underground network.

There will be £500m for Tyne and Wear Metro and also £14bn for Network Rail for maintenance and investment, but 21% efficiency savings are expected. Overall an 11% reduction in capital spending is planned and bus subsidies to operators will be reduced by 20%.

Housing and Social Housing: The Government hopes that reforms to the planning system in the Localism Bill will increase housing supply and there will be a New Homes Bonus equivalent to the additional council tax from every new home for six years to encourage housing growth. Social landlords will be able to offer new social tenants intermediate rental contracts that are more flexible, at rent levels of about 80% of market rents. The terms of existing social tenancies and their rent levels will not change. Modest capital investment in social housing may deliver up to 150,000 new affordable homes over the Spending Review period. £2bn is earmarked for the Decent Homes programme. Overall, a substantial cut in the budget for social housing.

Energy & Climate Change: Over £200m will be invested in manufacturing facilities at port sites and technology innovation to support the development of offshore wind power and energy efficiency technology for buildings. Up to £1bn will be invested in one of the world's first commercial scale carbon capture & storage demonstration projects. This will in part be funded by changes to the **CRC Energy Efficiency scheme.** The first allowance sales for 2011-12 emissions will now take place in 2012 rather than 2011 and revenues from allowance sales totalling £1bn a year by 2014-15 will be used to support the public finances, rather than recycled to participants. While this will reduce the complexity of the scheme for business overall, it leaves CRC as simply a tax on energy use. We understand that the Government will launch a consultation on additional ways to simplify the CRC next month.

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It had been announced prior to the spending review that the proposed Severn Barrage will not proceed.

Pensions and welfare: Withdrawal of child benefit where either parent pays higher rate tax is confirmed and will take effect from January 2013. Long term, there will be a complete overhaul of the welfare system to replace current benefits and tax credits with a Universal Credit and a total welfare cap imposed, likely to be about £500 per week per household. In addition to raising the state pension age, there will be public sector pension reform likely to lead to higher employee contributions.

Police: Funding to be cut by 4% a year over the review period.

Health: While spending on the NHS is to be maintained there will be efficiency savings to meet rising costs. Part of the budget will have to fund up to £2bn additional investment in social care.

Green Investment Bank: £1bn funding for this UK-wide institution which is intended to enable private investment in green infrastructure projects, such as offshore wind farms.

Regional Growth Fund: This fund is designed to encourage private sector investment in areas previously heavily dependent on public spending and will be increased to £1.4bn.

Department for the Environment Food and Rural Affairs: 15% efficiency savings to be made in procurement for flood and coastal defences for reinvesting in flood protection. Savings will also be made by abolishing British Waterways as a public corporation in England and Wales and creating a new waterways charity. The Rural Development Programme for England is to be cut by £66m. Funding will be stopped for 7 waste PFI projects and more than half the DEFRA quangos will be abolished. Further announcements are expected on the reform of the Environment Agency and Forestry Commission.

Local Government: The grant from central government will be reduced by 26% overall but funding will be provided to support the council tax freeze in 2011/2. Councils will have greater financial control in that ring fencing of most revenue grants will end from 2011/12.

Justice: Plans for a new 1,500-capacity prison are dropped but there will be £1.3bn capital investment in prisons overall. Sentencing changes are expected to limit the rise in the prison population

Education: £15.8bn capital spending to "rebuild and refurbish" 600 schools. Savings will be achieved in further and higher education by reorganising their funding in line with the recommendations in Lord Browne's review.

Olympics: The public sector funding package of £9.3bn is maintained.

Efficiency Review: the Cabinet Office will implement many recommendations made in Sir Philip Green's review into Government efficiency.

Devolved administrations: Reduced resource spending by 7% and capital spending by 37% in Northern Ireland, 38% in Scotland and to 41% in Wales, but local discretion over how to implement the reductions.

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