

# TaxPayers' Alliance Spending Review 2010 Briefing





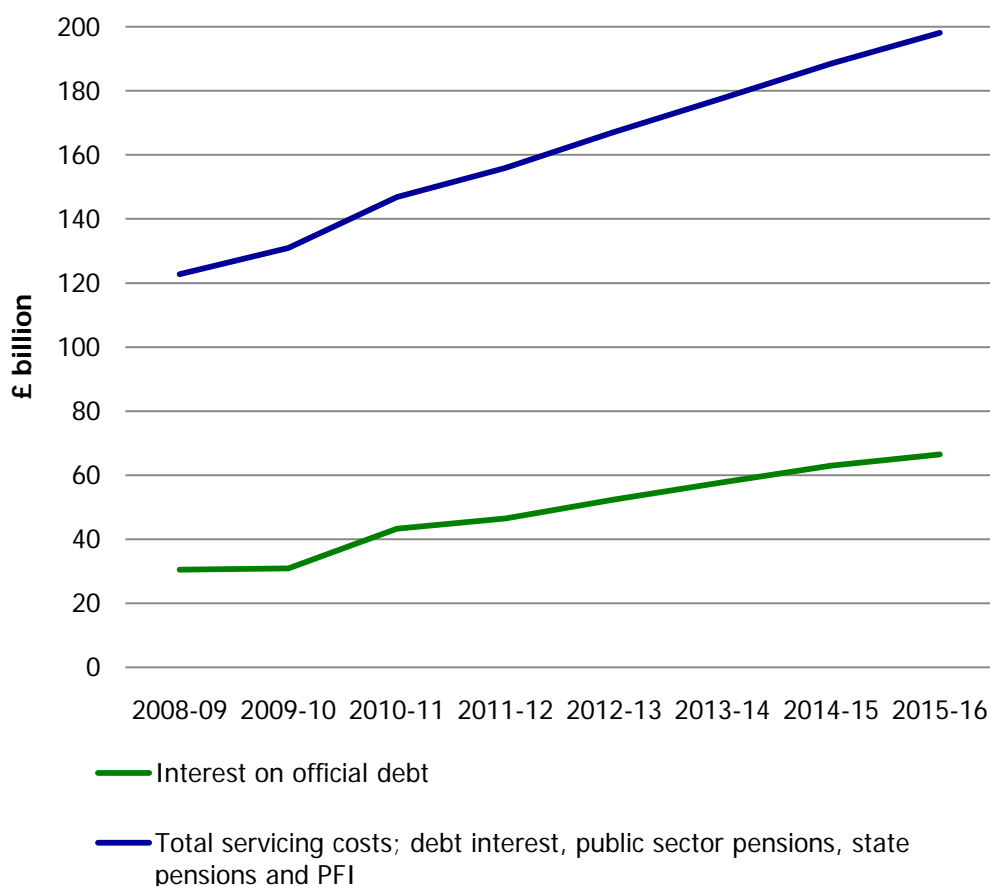
## Spending Review 2010

## Introduction

In response to the Spending Review announcement, Matthew Sinclair, Director of the TaxPayers' Alliance, said:

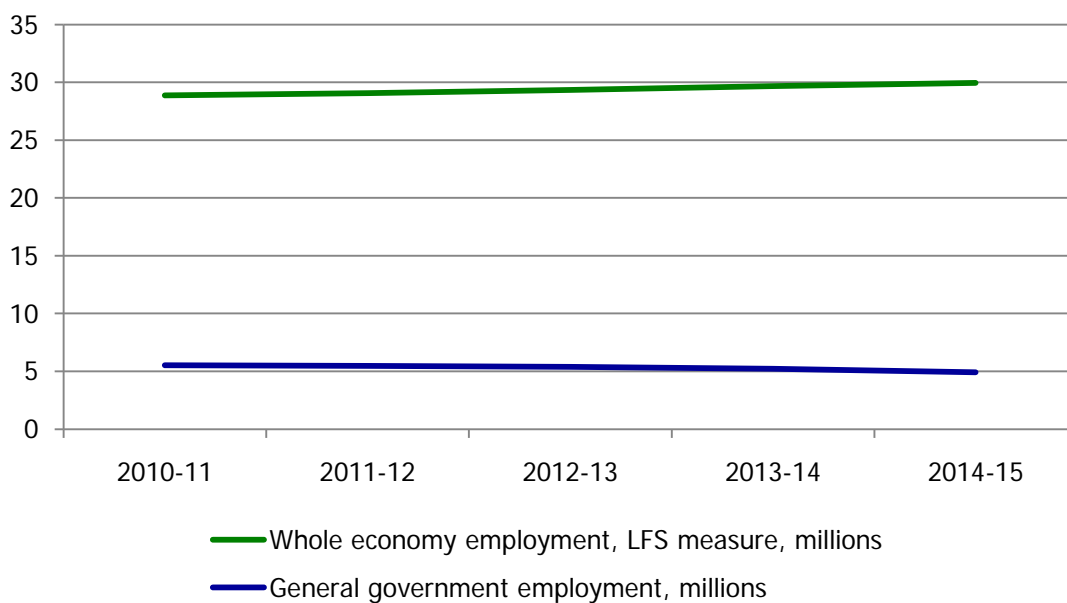
*"It's great news that the Government is going ahead with necessary spending cuts to get the deficit under control and that politicians are finally setting out clear plans to deal with the fiscal crisis. Many wasteful programmes are being cut and that will mean savings for taxpayers now and in the future. Unfortunately a number of measures that would save significant amounts of money while minimising the impact on services haven't been taken, like a freeze in the International Development budget or pay cuts for the best paid public sector staff. Sensible and necessary cuts have been announced today but more can be done to deliver good value for hard pressed taxpayers."*

One reason why cuts are needed is that debt interest payments are set to rise substantially in the coming years. The total cost of servicing existing liabilities will be even greater, as this new chart produced by former Treasury and City economist Mike Denham shows.



Without cuts in spending, debt will rise further and debt interest payments will continue to consume a larger and larger share of revenues. If the Government did not establish a credible plan to deal with the deficit, it would lose credibility with international markets and gilt yields would rise, making debt interest even more expensive.

Cuts will not be easy. But those announced are manageable. The reduction in public sector employment was forecast by the Office for Budget Responsibility in June but is expected to be outweighed by a rise in private sector employment.



The Government have announced a number of new changes to welfare and particularly tax credits. Some benefits are having their eligibility criteria tightened up, time limits introduced and other modifications are being made to cut costs. The changes appear to be reasonable but some groups are likely to be hit disproportionately and complexity may increase. The complexity of the changes themselves illustrates the need for prompt welfare reform to make the system more comprehensible to those eligible and improve take-up rates. Total net savings in Annual Managed Expenditure as a result of the changes are expected to be £7 billion a year by 2014-15.

There are many areas where the Government could have gone further. The rest of this short briefing note will look at a number of the spending departments. It will then assess the broader context in which the fiscal adjustment is taking place.

## Education

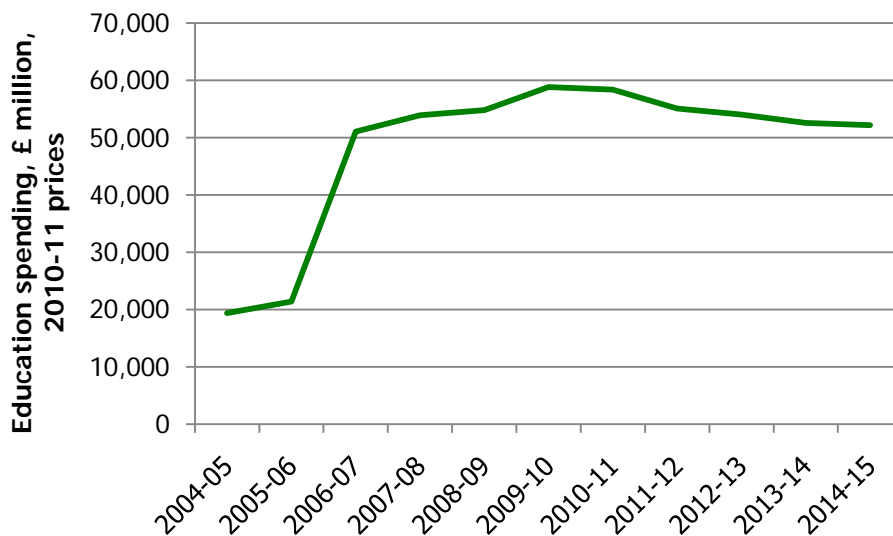


### Key announcements

- Real terms increase of 0.1 per cent each year in the 5-16 schools budget including the £2.5 billion pupil premium.
- Abolition of EMA payments, with some local support instead, saving around £500 million.
- Maintain Sure Start in cash terms.

### What this means for the Education budget

There is a discontinuity in the data on the Education budget when the Dedicated Schools Grant was created, moving schools spending from the DCLG budget to Education for 2006-07. However, it is clear that spending is only falling gradually, and will still be above the level in 2006-07 in 2014-15. Within that total, capital spending is falling more sharply.



#### TPA recommendations implemented

- Abolish the Education Maintenance allowance
- Abolish Building Schools for the Future

#### Other TPA recommendations

- Scale down council education departments - £599m
- Reduce non-frontline staff in schools and hospitals by 10 per cent

## Health



### Key announcements

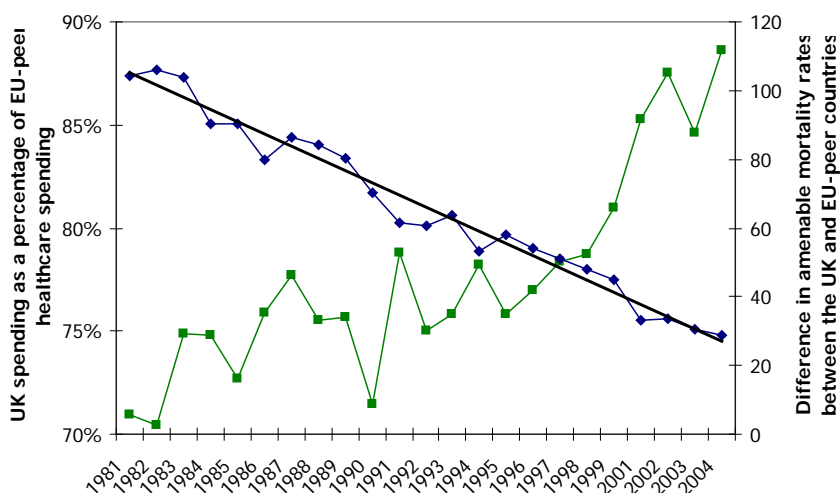
- Real term increases in overall NHS spending, which grows by 0.4 per cent each year.
- An additional £1 billion for social care as part of an overall £2 billion of additional funding for social care by 2014-15.
- £200 million to fund new cancer drugs.
- Continued funding for priority hospital schemes: St Helier, Royal Oldham and West Cumberland.

### What this means for the Health budget

For some reason, which we are trying to ascertain, the figures in the Spending Review 2010 document do not compare with those in the annual Public Expenditure Statistical Analyses.

**UPDATE: Depreciation was accounted for differently in the Spending Review. The other figures in this report have been adjusted accordingly though the changes are minor.**

It is possible to get much better value for taxpayers' money in this area. The number of non-frontline staff has grown rapidly and in recent years improvements in outcomes have not matched rapid increases in funding.



#### TPA recommendations implemented

- Abolish Strategic Health Authorities
- Abolish the NHS National Programme for IT – expecting to save £700m

#### Other TPA recommendations

- Reduce non-frontline staff in schools and hospitals by 10 per cent

## Transport

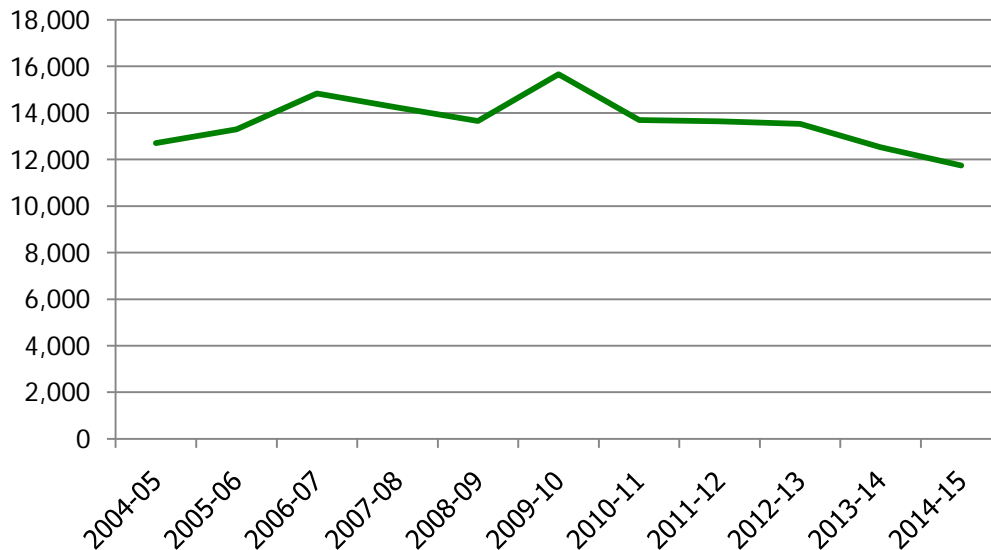
## Department for Transport

### Key announcements

- A reduction in total DEL of £0.8 billion by 2014-15.
- The Government is proceeding with its plans for high speed rail, but there is no allocation of funding outlined.
- £30 billion in capital spending over the spending review period, including funding to enable Crossrail to go ahead, £6 billion on the London underground and spending on road schemes, including the A11, M4, M5 and M1.

### What this means for the Transport budget

The Transport budget will fall relatively rapidly in line with the overall tough settlement for capital spending, as under the last Government. Cuts in local government transport budgets will be particularly sharp.



#### TPA recommendations implemented

- Cut the Bus Service Operators' Grant

#### Other TPA recommendations

- Refocus transport spending on high use commuter rail and roads

## DCLG

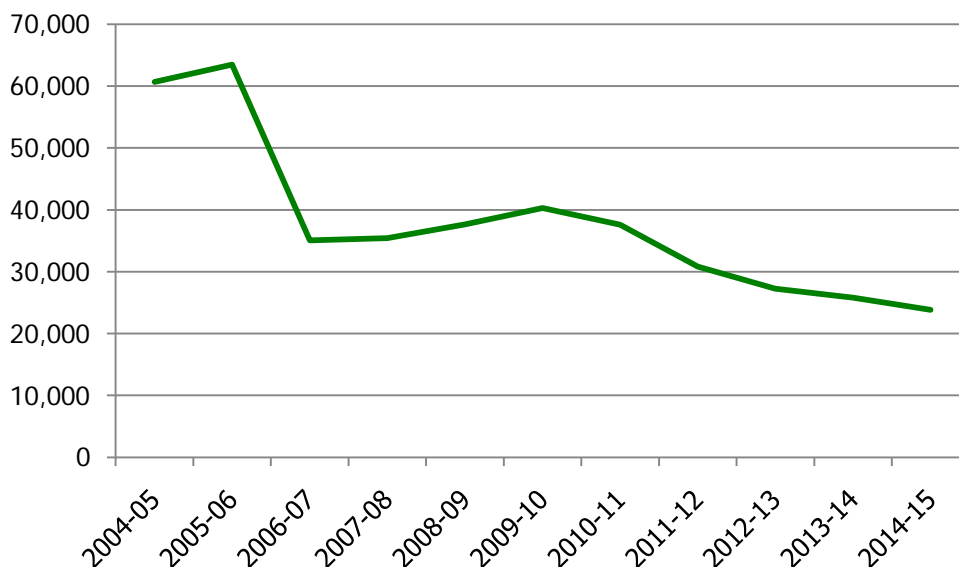


### Key announcements

- Reduction in overall budget by 51 per cent in real terms by 2014-15, including devolving over £1.6 billion to local government.
- Removing ring-fencing around all council grants except simplified schools grants and a public health grant. The number of separate core grants reduced from over 90 to less than 10.
- Introduction of a new homes bonus.
- Funding in all four years of the review to enable councils to freeze council tax in 2011-12.

### What this means for the DCLG budget

The early apparent cut in this budget is the result of the creation of the Dedicated Schools Grant.



The Spending Review cuts Whitehall's annual support for local councils by 26% in real terms. And that is just the headline shown in the report, with new responsibilities, the like-for-like funding cut is almost certainly even bigger. The cost of their loan funding has also been increased. Councils will need to learn from authorities that have successfully cut spending and delivered lower council tax.

## Business, Innovation and Skills

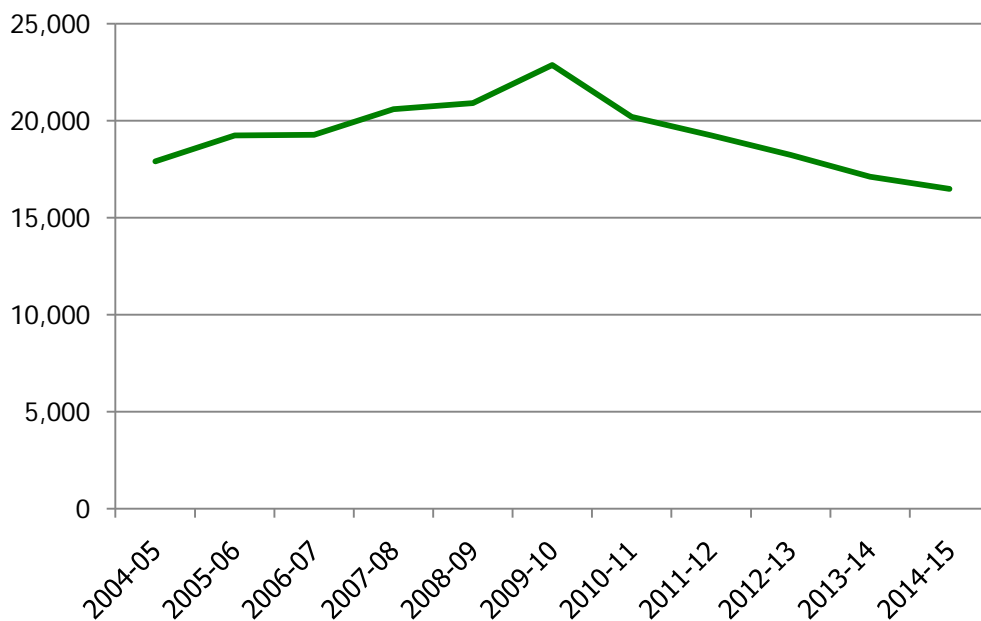
**BIS**  
Department for  
Business Innovation  
& Skills

### Key announcements

- Cash freeze of science budget at £4.6 billion a year.
- Increased funding by £250 million a year by 2014-15 on new adult apprenticeships.
- Reforms to funding of higher education forthcoming.

### What this means for the Business, Innovation and Skills budget

Business spending is set to fall sharply. The abolition of the Regional Development Agencies is a key measure in this area. Unfortunately, the Government plan to replace them with Local Enterprise Partnerships.



#### TPA recommendations implemented

- Abolish Regional Development Agencies
- Abolish Train to Gain

## Home Office and Justice

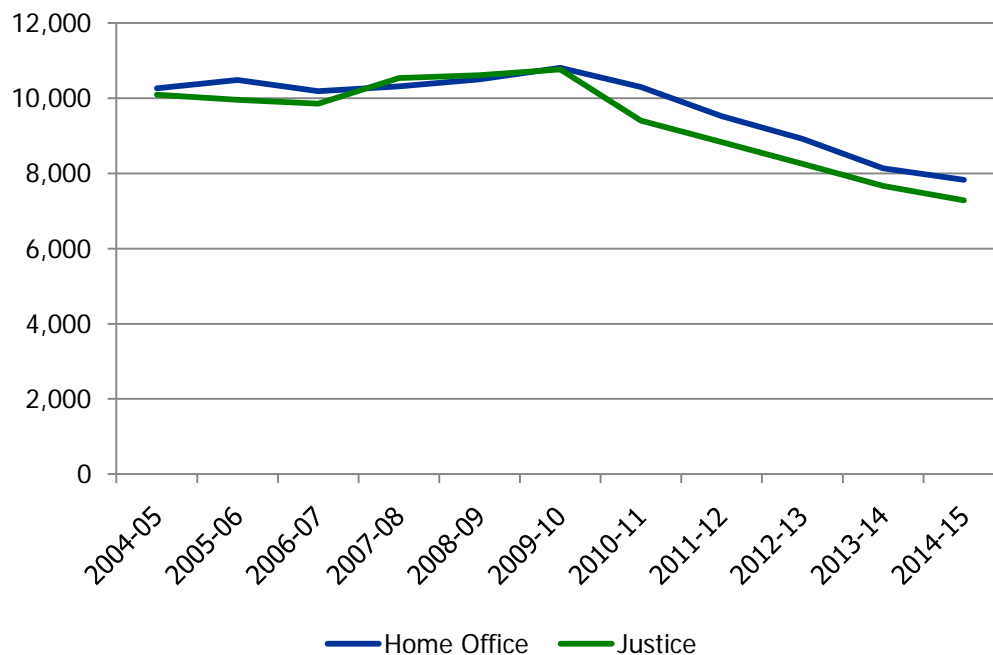


### Key announcements

- Police resource funding reducing by 14 per cent in real terms by 2014-15.
- Plans for a 1,500 place prison have been shelved until period of next spending review.
- Changes to sentencing should see a reduction of the prison population of 3,000 by 2015.

### What this means for the Home Office and Ministry of Justice budget

Both the Home Office and Ministry of Justice budgets are falling significantly. This is predicated on falls in the prison population as part of a planned change in sentencing policy. The critical policy question is what effect that will have on crime rates and therefore future need for spending in these areas.



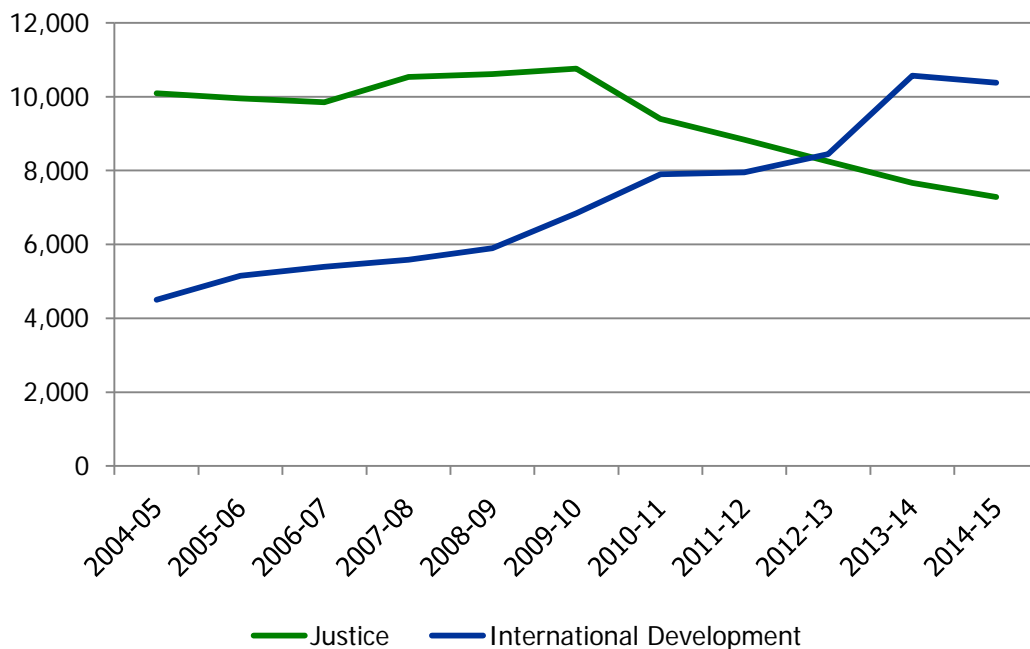
## International Development

### Key announcements

- An increase in Official Development Assistance (ODA) to 0.7 per cent of Gross National Income from 2013.
- Establishment of a new Independent Commission to assess all ODA spending.
- Departmental Spending will rise from £7.8 billion in 2010-11 to £11.5 billion in 2014-15.

### What this means for the International Development budget

The DFID budget will continue to rise rapidly in real terms. The contrast is stark when it is compared with other budgets such as Justice. To move so decisively from spending on objectives like incarcerating criminals to spending on foreign aid will be hard to reconcile with public priorities. Freezing the budget in cash terms over the period – the same settlement as science funding received – would save £3.7 billion a year by 2014-15.



#### Other TPA recommendations

- One-year freeze of the DfID budget - £862 million

## Energy and Climate Change



### Key announcements

- Up to £1 billion of investment to create a commercial scale carbon capture and storage plant.
- £1 billion to establish a Green Investment Bank.
- Over £200 million for the development of low carbon technologies including offshore wind technology and manufacturing at port sites.
- Renewable Heat Incentive will be introduced.
- £2.9 billion to international climate finance to help developing countries pursue low carbon growth and adapt to the impact of climate change.

### What this means for the International Development budget

Government estimates suggest that the Renewable Heat Incentive would increase the average domestic gas bill by 14 per cent (£94 a year) by 2020. That is a substantial increase in the burden on consumers.

The Green Investment Bank is a response to investor concerns that the impact on consumers makes the returns needed to finance investments to meet environmental targets unsustainable. Citigroup Investment Research expect an “affordability crisis” for the sector as bills rise sharply (by over 50 per cent) to 2020. The Government is therefore committing considerable amounts of taxpayers’ money to invest in a market where the confidence of private investors is low.

The £2.9 billion commitment to international climate finance is a very significant amount given that it comes on top of the rising International Development budget.

#### Other TPA recommendations

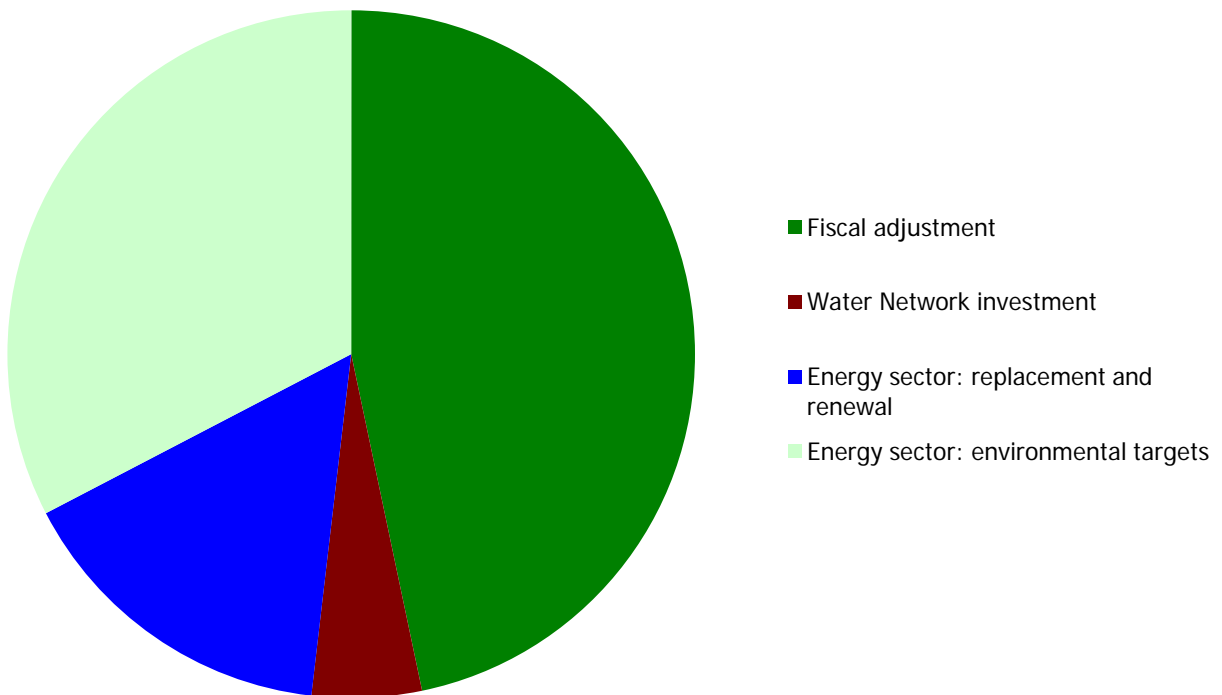
- Abolish the Carbon Trust, saving over £100 million
- Reform climate change policy to cut the burden on consumers

## The Fiscal Crunch from 2010 to 2020

Other policy commitments will place an additional burden on already hard-pressed taxpayers. They need to be taken into account when assessing the Spending Review. The table and chart below show four major sources of pressure on household budgets. First we can see the last Government's plans for fiscal consolidation, along with Citigroup Investment Research estimates from last year of capital expenditure needed in the energy sector, which will increase energy bills, and Ofwat's estimates for capital investment required in water networks, which will increase water prices.

### Fiscal crunch, estimate from early 2010

Item	Amount, £billion	Timescale
Fiscal adjustment	198.8	2010-11 to 2014-15
Water Network investment	22	2010-11 to 2015-16
Energy sector: replacement and renewal	66	By 2020
Energy sector: environmental targets	139	By 2020
<b>Total</b>	<b>425.8</b>	<b>By 2020</b>



### Fiscal crunch, estimate today

Second, we see updates for these figures with the Coalition Government's more complete consolidation plans (including plans for 2015-16) and updated estimates of the cost of energy sector capital expenditure from Citigroup Investment Research. It is important to note that the same crunch may have been experienced regardless of the party elected, but a larger fiscal crunch is becoming apparent over time.

Item	Amount, £billion	Timescale
Fiscal adjustment	438.3	2010-11 to 2015-16
Water Network investment	22	2010-11 to 2015-16
Energy sector: replacement and renewal	80	By 2020
Energy sector: environmental targets	202	By 2020
<b>Total</b>	<b>742.3</b>	<b>By 2020</b>

