

FELLOWS' ASSOCIATES

Comprehensive Spending Review 2010

October 2010

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Introduction

The Chancellor of the Exchequer announced that today was the day when Britain stepped back from the “brink” and brought the years of “ever-rising borrowing to an end”.

The Chancellor said that the Comprehensive Spending Review (CSR) had focused on reducing welfare costs and wasteful spending so that government can prioritise the NHS, schools, early years provision and capital investments which support long term economic growth.

The government’s plan is to eliminate the structural current budget deficit over a five year rolling programme. The Spending Review is based on the government’s plans for current spending as set out in the Budget. Next year, current expenditure will be £651 billion, £665 billion the following year, £679 billion in 2013/14 and it will reach £693 billion in 2014/15. Capital spending is set to increase by £2.3 billion a year by 2014, relative to the Budget plan. Total public expenditure – capital and current – over the coming years will be £702 billion in 2011/12, £713 billion in 2012/13, £724 billion in 2013/14 and £740 billion in 2014/15.

Principles

The Chancellor said that he had based his spending decisions on three principles:

- *Reform* – the government says that the Spending Review is “underpinned” by a “radical” programme of public service reform which redistributes power away from central government and enables sustainable, long-term improvement in services.
- *Fairness* – the government argues that social mobility is at the heart of fairness
- *Growth* – the government says that the UK’s economy became unbalanced and relied on unsustainable public spending

Next steps

The government plans to publish a business plan later this year that will set out its visions and priorities for 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. The latter will be published for consultation to ensure that the government agrees indicators in time for the beginning of the Spending Review in April 2011. The government will also publish a reform white paper early in the New Year.

Responses to the Spending Review

The Chancellor claimed that the cuts are smaller than those announced by Labour prior to the general election. Labour said that this was nonsense. The Shadow Chancellor, Alan Johnson, argued that the rush to cut the deficit would endanger the recovery and reduce the prospects for employment in the short term, and prosperity in the longer term. Labour said that it believed there should be a more gradual reduction.

The CBI welcomed the Spending Review, saying that it particularly welcomed the extra expenditure on capital spending and the focus on areas that support growth including transport and other infrastructure, education and science, and the low-carbon economy. It argued that while the spending cuts are painful they are essential to balance the UK's books and its future prosperity.

The British Chambers of Commerce argued that the reductions were not as draconian as they could be, whereas the National Housing Federation argued that a 60 per cent reduction in housing was deeply depressing.

The TUC, on the other hand, said that the government has announced "eye-watering cuts" that will have a desperate impact on communities, businesses and hard-pressed families. It argued that the reductions in public spending would depress the economy by causing a million job losses and undermining business and consumer confidence.

Meanwhile the Child Poverty Action Group argued that continued raids on the family budgets of the most vulnerable will mean higher public spending bills in the future as the costs of damaged life chances, social failure and economic underachievement mount up.

Margaret Easton for the Local Government Group argued that the Spending Review would hit councils and the residents they serve very hard and would inevitably lead to cuts at the

frontline. She said: "Councils will do all they can to minimise the effect of these cuts and will build on their record of delivering new and better ways of doing things. But savings on this scale are bound to hit services upon which people rely."

Professor John Appleby from the King's Fund argued that: "There is an element of double counting to the social care promise. It is money the NHS is giving to other services. I'm not saying social care doesn't deserve it, but it is not money the health service can spend on what it wants to and if you take that out of the budget it is no longer a real rise."

Chris Giles for the Financial Times suggested that the real winner of the Spending Review was obfuscation. He wrote: "What has really saddened me is the presentation of the spending review. George Osborne is a skilled historian of Gordon Brown. Rather than rejecting his tricks of obfuscation, he has embraced them as a top pupil emulates his school master." As Giles points out the Chancellor provided different bases of comparison throughout his speech "It was impossible to know whether the numbers were in real or nominal terms, over one year or four years, annual or cumulative."

Overview

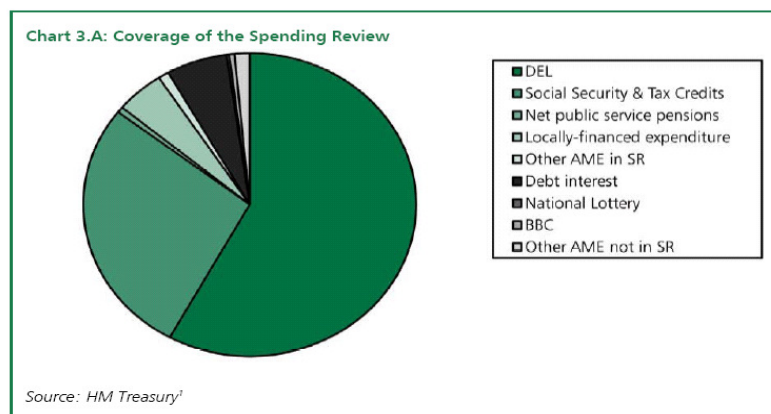
Spending framework

The government argues that there must be a robust framework for spending control. The Spending Review provides for reforms in Annually Managed Expenditure (AME). This is spending included in Total Managed Expenditure (TME) that does not fall within Departmental Expenditure Limits (DELs).

Expenditure in AME is generally less predictable and controllable than expenditure in DEL. It includes social security, tax credits and public sector pensions.

In June 2010 the government announced that in future the Spending Review would include AME, suggesting that the vast majority of public spending would be included in the Spending Review. By doing this the government is able to use welfare spending cuts to finance other “more productive areas of government spending. The table below shows the proportion of AME spending to public spending as a whole. The government has been able to use this welfare expenditure to support other areas of welfare spending.

Table 1 below highlights how significant AME is in terms of the Spending Review.



Choices

The government says that it has made choices which include cutting back on wasteful public services and welfare reform. This, it says, has enabled the government to prioritise the NHS, schools, early years provision and capital investments that support long term economic growth. The Spending Review also contains an increase in the schools budget in real terms and additional early years provision for disadvantaged children. This includes a £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.

Capital spending

The government says that it is prioritising economic infrastructure that supports growth such as transport and the transition to a low carbon economy; and taking steps to support private sector investment in infrastructure, for example through a Green Investment Bank.

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. Fourteen billion pounds will go to Network Rail supporting maintenance and investment to continue to enhance the capacity and speed of services across the country. A White Paper on local growth will set out the Government's strategy for ensuring that all places benefit from sustainable economic growth. Five hundred and thirty million will be invested over the Spending Review period to support the UK's broadband network.

Banks

The government will publish draft legislation on 21 October for a Bank Levy as an additional and permanent tax. Once fully in place, the government expects the Levy to generate around £2.5 billion of annual revenues.

Equalities

The government argues that, in line with its commitment to fairness and promoting social mobility, it 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 Fawcett Society argued however that of the 490,000 total jobs threatened by the reductions, two thirds of these would be women, that women would bear the brunt of the eighteen million pounds a year benefits reduction, and that targeting local government for reduction was “tantamount” to singling out women “for the hit”.

Public Services reform

The government says that 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. It says that together these principles help build a society where everyone plays their part – the Big Society.

Local government

The government says that it will devolve significant financial control to local authorities. Ring-fencing of all local government revenue grants will end from 2011-12, except for simplified schools grants and a new public health grant. The number of separate core grants will be 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 pooled in 16 areas for families with complex needs and will be extended to all areas over the period of the Spending Review.

The government also says that it 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.

Shared responsibilities

The government says that it will pay and tender for more services by results, rather than be the default provider of services. It says that 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.

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.

The government says that it will assist new providers by improving access to the resources. It says that it 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. The government will provide funds to pilot the National Citizen Service and establish a Transition Fund of £100million to provide short term support for voluntary sector organisations providing public services. The government says that it will publish a reform white paper early in the New Year.

Value for money

The government says that it is committed to value for money reforms. These are targeted on reforming public sector pay and pensions, disposing of surplus assets; and ensuring that remaining central government functions are delivered as efficiently as possible. It says that part of this work will address the key findings of Sir Philip Green's Review.

The government says that it 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.

Welfare Reform

Welfare reform

The government argues that the Spending Review 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. Government also argues that fairness must also be about taking the right decisions to tackle the deficit.

The DWP settlement includes

- funding of £2 billion over the next four years for the Universal Credit, which will replace the current system of means-tested working age benefits with a single tapered payment
- personalised back-to-work support through the Work Programme for the long-term unemployed and disabled people, delivered by the private and not –for-profit sectors
- funding for the introduction of auto enrolment from 2012 and the establishment of the National Employment Savings Trust (NEST) to help individuals save for their retirement and encourage high quality pension provision by employers
- overall resource savings of 26 per cent in real terms on DWP’s core budget by 2014-15, through greater use of digital services for processing benefits, and targeting of spending on employment programmes, the Child Maintenance and Enforcement Commission, and the Health and Safety Executive
- uprating the basic State Pension by a guarantee of earnings, prices or 2.5 per cent, whichever is highest, and preserving key benefits for older people including Winter Fuel Payments.

The government says that it will raise the State Pension Age for men and women to 66 by April 2020.

Of the £81 billion of savings required by 2014-15, over £30 billion was announced in detail at the June budget. This included £11 billion of welfare reform savings. The government announces a further £7 billion of cuts by 2014/15.

The government says that 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. It says that this will reduce fraud and error, and ensure that work always pays.

The reductions in benefits include the following:

- saving £2.5 billion a year by 2014-15 by withdrawing Child Benefit from families with a higher rate
- capping household benefit payments from 2013 to around £500 a week for couple and lone parent households and around £350 a week for single adult households
- limiting contributory Employment and Support for those in the Work Related Activity Group to one year
- more action to tackle benefit fraud and error
- controlling the costs of tax credits by reducing the percentage of childcare costs that parents can claim through the childcare element of the Working Tax Credit (WTC) from 80 per cent to its previous 70 per cent level in April 2011, saving £385 million a year by 2014-15 and changing the eligibility rules so that couples with children must work 24 hours a week between them, with one partner working at least 16 hours a week in order to qualify for the WTC, saving £390 million a year by 2014-15; freezing the basic and 30 hour elements of the WTC for three years from 2011; and increasing the child element above indexation which the government says will ensure that the overall outcome of the Spending Review will have no measurable impact on child poverty in the next two years
- increasing the age threshold for the Shared Room Rate in Housing Benefit from 25 to 35 – claimants are restricted to the rate for a single room in a shared house rather than a self-contained one bedroom property.

- removing the mobility component of Disability Living Allowance for people in residential care, where such costs are already met from public funds
- freezing the maximum Savings Credit award in Pension Credit for four years
- extending for a further year the temporary change to the Support for Mortgage Interest scheme, to reduce the waiting period for new working age claimants to 13 weeks and increase the limit on eligible mortgage capital to £200,000
- reductions and localisation of Council Tax Benefit (see section on local government)

The government will speed up the pace of State Pension Age equalisation for women from April 2016 so that Women's State Pension Age reaches 65 in November 2018. The State Pension Age will then increase to 66 for both men and women from December 2018 to April 2020.

IFS Analysis

The Institute for Fiscal Studies has told Sky News the spending plans are "regressive" and a chart on page 98 of the official document reveals the bottom 10% of earners will lose the most money from the cuts. This shows the impact of Spending Review and budget measures as a per cent of net income by income distribution (2012-13).

Chart B.4 Impact of Spending Review and Budget measures (including pre-announcements) in cash terms (£ per year) by income distribution (2012-13).

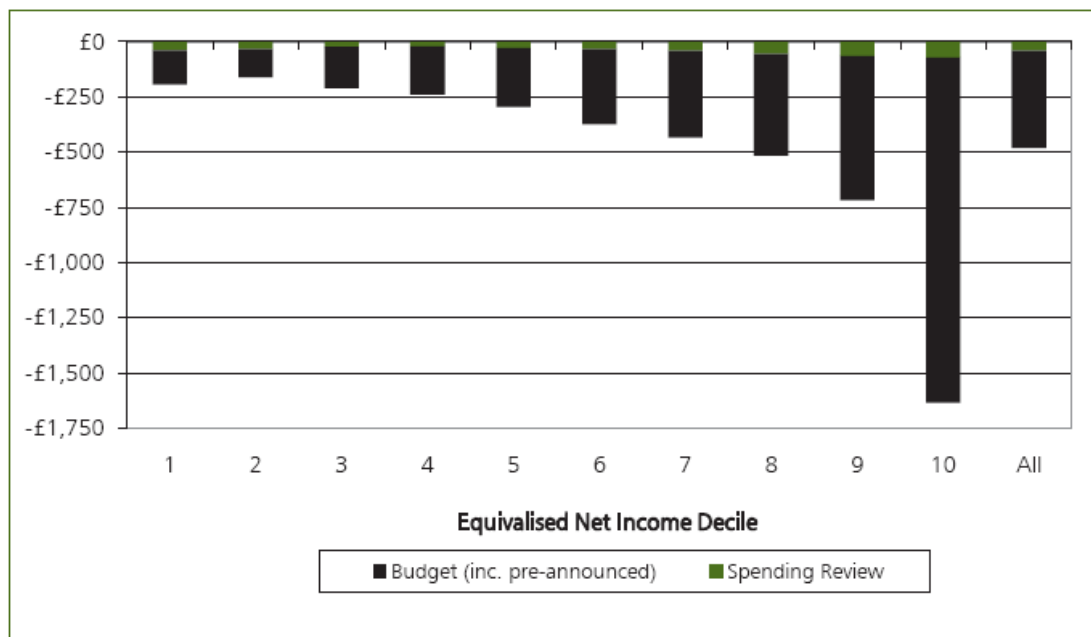
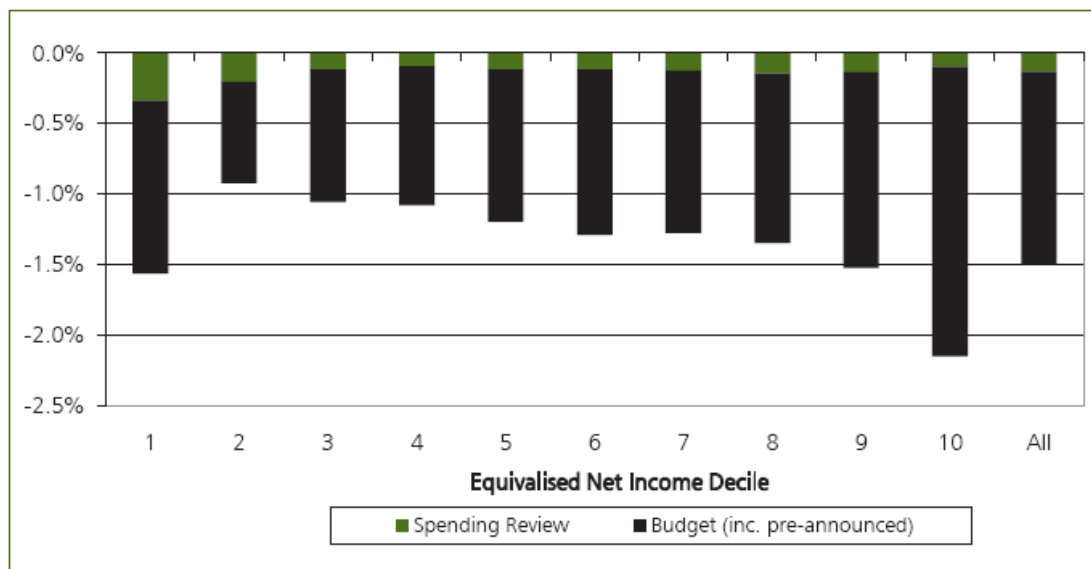


Chart B.5 Impact of Spending Review and Budget measures (including pre-announcements) as a per cent of net income by income distribution (2012-13).



However, the government points out the bottom decile contains many households with temporarily low incomes such as students or self-employed people.

Treasury

Table 2.24: HM Treasury

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹	0.2	0.2	0.2	0.2	0.1
Capital DEL	0.0	0.1	0.0	0.0	0.0
Total DEL	0.2	0.2	0.2	0.2	0.2
Departmental AME	-2.7	0.3	0.1	0.0	-0.1

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

Today's spending review announced that the Treasury will face overall resource savings of 33 per cent in real terms by 2014-15.

Savings will be achieved through reform of the department. The Treasury will continue to manage the process of deficit reduction and support the economic recovery. It is involved in setting up the Office for Budget Responsibility and reforming the system of financial regulation.

However, the department will conduct a strategic review to determine where staff numbers can be reduced and will also look at opportunities to sublet areas of the Treasury estate.

Royal Household

Grant support for the Royal Household will be static in 2011-12 at £30 million. This will result in a 14 per cent reduction in Royal Household spending in 2012-13 as the civil list reserve will be exhausted. In the jubilee year there will be a temporary additional facility of £1 million.

Ministry of Justice

Table 2.11: Ministry of Justice

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL	8.3	8.1	7.7	7.4	7.0
Capital DEL	0.6	0.4	0.3	0.3	0.3
Total DEL	8.9	8.6	8.0	7.6	7.3
Departmental AME	0.0	0.0	0.0	0.0	0.0

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

The Ministry of Justice will make overall resource savings of 23 per cent in real terms by 2014-15.

To achieve this, the government will look at reforming the sentencing framework to try and curb the rise of the UK prison population. Specific measures will be outlined in a green paper, however today's announcement outlined that the reform will include looking at measures such as community penalties where they can be more effective than short term prison sentences. The government will also look at how private and voluntary providers can be brought in to the system and rewarded by the results they achieve in reducing reoffending.

As well as the measures announced today to reduce spending, the department will also take forward proposals to invest in mental health liaison services at police stations and courts, to divert mentally ill people away from the criminal justice system and in to healthcare.

The criminal justice system will also be further streamlined. The government is looking at closing 157 under-utilised courts, and will explore reform of the courts system by using alternatives where possible.

Alongside the reforms, the department will also look at reducing back office and administration costs by 33 per cents. This will include a reduction in the numbers of staff, more effective use of the department's estate, and implementing shared corporate services across the department.

Capital savings of 50 per cent will be made over the spending review period. The settlement provides sufficient capital funding to maintain the existing prison estate and to fund essential new build projects. Plans for a 1,500 place prison will be deferred to the next Spending Review period, and spending on new IT and court projects will be limited to essential capacity.

The government also plans to consult on major reforms to the legal aid system to deliver access to justice at a lower cost to the taxpayer. This will involve looking at the types of cases that should receive public funding, and focusing support on those who need it most.

Home Office

Table 2.10: Home Office

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹	9.3	8.9	8.5	8.1	7.8
Capital DEL	0.8	0.5	0.5	0.4	0.5
Total DEL	10.1	9.4	9.0	8.4	8.3
Departmental AME	0.7	0.8	0.9	0.9	1.0
Police²	9.7	9.3	8.8	8.7	8.5

¹ In this table, Resource DEL excludes depreciation and AME excludes non cash items

² Police includes Home Office, CLG and Welsh Assembly Government funding.

The Home Office will make overall resource savings of 23 per cent in real terms by 2014-15 which will be achieved through reduced spend on consultancy, overheads and the size of the workforce, and reprioritising the frontline.

Police Funding

Central government funding for the police force will reduce by 20 per cent in real terms by 2014-15. However, if police forces were to increase precept at the level forecast by the OBR, the Spending Review settlement means that, on average, police budgets would see real term reductions of 14 per cent over the next four years.

Police forces will be expected to focus on driving out wasteful spending, reducing back office costs and improving productivity. The government will support this by ending central targets and cutting bureaucracy. Better technology and modernised pay and conditions will also be introduced. The new directly elected Police and Crime Commissioners will have a key role to play in ensuring that resources are focussed on tackling the crime that matters most to local communities. Within overall policing funding, counter-terrorism spending will be prioritised.

The new National Crime Agency will absorb many of the duties of the National Policing and Improvement Agency, saving at least £50 million. The UK Border Agency will also save around £500 million by reducing costs of support functions, estates and IT, and will invest in frontline operations to boost productivity.

Department for Communities and Local Government

Table 2.6: Department for Communities and Local Government

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹	2.2	2.0	1.7	1.6	1.2
Capital DEL	6.8	3.3	2.3	1.8	2.0
Total DEL	9.0	5.3	4.0	3.4	3.2
Departmental AME	0.6	0.7	0.7	0.7	0.7

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

The Department for Communities and Local Government (CLG) will reduce its overall budget by 33 per cent in real terms 2014-15 through reducing the size of the department and Arms Lengths Bodies. However, in addition to this, the department is devolving over £1.6 billion to local government. This means that the reduction in the department's resource budget will be 51 per cent in real terms by 2014-15.

One of the key themes of the Comprehensive Spending Review is growth. To encourage private sector enterprise and economic growth, CLG will contribute £890 million to the £1.4 billion Regional Growth Fund by 2013-14. The fund will invest in projects and programmes with significant potential for growth and employment, and will in particular support those areas and communities that are currently overly dependent on the public sector.

Housing

The government will increase housing supply by reforming the planning system so it is more efficient, effective and supportive of economic development. In addition, it will introduce a New Homes Bonus that will directly reward and incentivise local authorities and local communities to be supportive of housing growth, equivalent to matching the additional council tax from every new home for each of the following six years. It will also reduce the total regulatory burden on the house building industry over the Spending Review period.

Funding for services that support the most vulnerable in society will be relatively protected, with provision for Disabled Facilities Grants rising with inflation and over £6 billion funding for the Supporting People programme over the Spending Review period. Also, reform of the council housing finance system will build in the resources needed to carry out future disabled housing adaptations required in the council housing stock.

As part of the spending review social housing will be reformed to provide a more tailored response to individual need at lower cost. Investment alongside this reform will deliver up to 150,000 new affordable homes by 2014-15. Meanwhile, investment via the Decent Homes programme will continue to improve the existing social housing stock.

Resources

CLG will make reductions of 42 per cent in real terms on administration costs. This will be achieved through the closure of the Government Office network, reducing the number of Arms Length Bodies by 17 and reducing the size of the department. As a result of this settlement, programmes including the Working Neighbourhoods Fund, Growth Area Funding and the Thames Gateway programme will end, in order to rationalise funding streams, make savings and take a more disciplined approach to Government spending.

Fire and Rescue Resources

Resources for the Fire and Rescue Services will reduce by 13 per cent over the spending review period. Within this, central government grants to local authorities will be reduced by 25 per cent over the same period. This will require the Fire and Rescue Service to modernise, increase efficiency and deliver workforce reform.

Local Government

Local Government

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹²	28.5	26.1	24.4	24.2	22.9
Capital DEL	0.0	0.0	0.0	0.0	0.0
Total DEL	28.5	26.1	24.4	24.2	22.9

1 In this table, Resource DEL excludes depreciation

2 LG DEL includes funding for police and fire authorities. Excluding these contributions LG DEL for councils will fall by 28%

Split of LG Resource DEL

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹	28.5	26.1	24.4	24.2	22.9
o/w funding for formula grant	28.0	25.0	23.4	23.2	21.9
o/w council tax freeze	0.0	0.7	0.7	0.7	0.7
o/w other	0.5	0.5	0.4	0.4	0.4

1 In this table, Resource DEL excludes depreciation

The government says that it will reduce spending on Council Tax Benefit by 10 per cent and localise from 2013-14. In addition, the government says that it will consider providing greater flexibilities to local authorities to manage pressures on council tax from the same date.

Government points out that many councils are already fundamentally reviewing their roles and services, including using greater personalisation and increasing delivery through the voluntary and community sector. In 2011-12, £200 million will be available to councils to accelerate reforms of local services.

The first community budgets will be run in 16 local areas from April 2011 for families with complex needs. These will pool departmental budgets for local public service partnerships. All places may be able to operate these approaches from 2013-14. Councils and their partners will also have greater flexibility to work across boundaries in health, policing, worklessness and child poverty.

The government also says that in implementing its Transparency Framework it will reduce the amount of data local government is asked to collect by central government, and develop a single, comprehensive list, to be reviewed annually.

Department of Health

Table 2.2: NHS (Health)

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹	98.7	101.5	104.0	106.9	109.8
Capital DEL	5.1	4.4	4.4	4.4	4.6
Total DEL	103.8	105.9	108.4	111.4	114.4
Departmental AME	-2.0	-1.6	-1.0	-0.4	0.2

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

The government has pledged to increase overall NHS funding in real terms each year and, following today's spending review, total funding at the department will increase by 0.4 per cent in real terms over the spending review period.

However, the government has already made clear that the NHS will still have to make efficiency savings in order to deal with the increase costs of rising demand for services and an ageing population. The NHS has committed to making £20 billion of annual efficiency savings by 2014-15.

The government announced today that, to ensure spending remains focussed on priorities, some programmes announced by the previous government yet to be implemented will not be taken forward. This will include free prescriptions for people with long term conditions, the right to one-to-one nursing for cancer patients, and the target of a one week wait for cancer diagnostics.

As part of the reforms set out in Equity and Excellence – Liberating the NHS, GPs will be given the power to commission care for their patients and Primary Care Trusts (PCTs) and Strategic Health Authorities (SHAs) will be abolished. Greater diversity and efficiency of providers will also be encouraged, with patients able to use independent providers paid for by the NHS. The number of Arms Length Bodies will also be reduced from 18 to a maximum of 10 by 2013.

The NHS budget also reflects a number of factors, including falls in IT spending in line with the extra £0.7 billion of savings identified over the Spending Review period in the NHS National Programme for IT. Spending will be prioritised on essential maintenance and equipment as well as priority hospital schemes including St Helier, Royal Oldham and West Cumberland.

Fairness

The government says that social care plays a vital role in keeping people healthy and independent, whilst also supporting some of the most vulnerable people in society. The spending review makes available resources for local authorities so that they don't have to reduce access to services, and can fund new approaches that lead to improved outcomes.

The current DH grant to local authorities for social care, the Personal Social Services grant, will increase by £1 billion pounds in real terms by 2014-15. To reduce administrative burdens and increase flexibility for local authorities, this grant will be merged into local government formula grant; and the NHS will set aside funding growing to £1 billion by 2014-15 within their settlement to fund new ways of providing services, including re-enablement services provided by the NHS.

This government hope that this approach will go some way towards breaking down long standing barriers between health and social care.

Department for Business, Innovation and Skills

Table 2.9: Department for Business, Innovation and Skills

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹	16.7	16.5	15.6	14.7	13.7
Capital DEL	1.8	1.2	1.1	0.8	1.0
Total DEL	18.6	17.6	16.7	15.5	14.6
Departmental AME	1.5	1.4	1.4	1.4	1.4

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

The Department will find overall resource savings of 25 per cent, comprising of 40 per cent savings through the reform of higher education and an average of 16 per cent savings from other areas of the budget. However, the government says that it wants to ensure the UK remains a world leader in science and research so the budget for this area will be maintained over the period of the spending review. Funding for the key elements of adults skills funding will also remain relatively unscathed, with an increase in £250 million a year by 2014-15 for new adult apprenticeships.

Today's announcement also included a commitment to maintain and modernise the post office networks.

Higher education will be reformed to shift a greater proportion of funding from the taxpayer to the individuals who benefit, with extra support for those from the poorest backgrounds.

Ministry of Defence

Table 2.13: Ministry of Defence

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹	24.3	24.9	25.2	24.9	24.7
Capital DEL	8.6	8.9	9.1	9.2	8.7
Total DEL	32.9	33.8	34.4	34.1	33.5
Departmental AME	2.8	2.8	3.1	3.3	3.4

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

The Ministry of Defence will face reductions of 8 per cent in real terms by 8 per cent over 2014-15 which will include at least £4.3 billion across the spending review period. The department's settlement includes provision for a range of new equipment and reductions in older or non essential capabilities such as the Harrier jet and Nimrod reconnaissance aircraft.

On top of the settlement, the Government will fully fund the net additional costs of military operations in Afghanistan from the Treasury Reserve.

Cabinet Office

Table 2.25: Cabinet Office

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹	0.3	0.4	0.3	0.2	0.4
Capital DEL	0.0	0.0	0.0	0.1	0.0
Total DEL	0.4	0.5	0.4	0.3	0.5
Departmental AME	1.4	1.4	1.6	1.8	2.0

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

The Cabinet Office faces the largest relative spending reductions of all government departments. The office will find overall resource savings of 35 per cent through a reduction in the use of consultants, rationalising its existing estate and back office services, renegotiating supplier contracts and a reduction of 25 per cent over the period in the costs of supporting the Prime Minister.

At the same time, however, the department will be given new responsibilities to implement some of the coalition's key commitments including the transfer of spending on elections and constitutional reform from the Ministry of Justice; the Office of Government Commerce from the Treasury; and DirectGov from DWP. As a result, the Cabinet Office's overall settlement is higher.

The Cabinet Office will continue with many of its previous responsibilities, including work with the Treasury to drive improvement, cost savings and innovation across Government through the Efficiency and Reform Group.

Office for Civil Society

The Office for Civil Society has been funded to provide support for growing the Big Society which will include encouraging volunteering, building the capacity of the voluntary and community sector, establishing community organisers and setting up a Community First Fund to support local and community organisations. In addition, the Department has been funded to pilot National Citizen Service (NCS).

In recognition of the challenges faced by the voluntary and community sector, the Spending Review also announces a £100 million transition fund to provide support to those organisations delivering frontline services that stand to be affected in the short term by reductions in spending, and are able to demonstrate that the financial impact will affect their ability to deliver services. The fund will be provided for a transition period, enabling these organisations to adapt.

Department for Energy and Climate Change

Table 2.17: Department of Energy and Climate Change

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹	1.2	1.5	1.4	1.3	1.0
Capital DEL	1.7	1.5	2.0	2.2	2.7
Total DEL	2.9	3.0	3.4	3.5	3.7
Departmental AME	0.0	-0.1	-0.1	-0.1	-0.1

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

The Department for Energy and Climate Change will make overall saving of 30 per cent in real terms by 2014/15 through cutting lower value projects and focussing on key priorities.

However, the government has also pledged to provide investment for a range of new projects, including the £1 billion of investment to create the world's first commercial scale carbon capture and storage (CCS) demonstration plants and over £200 for the development of low carbon technologies including offshore wind technology and manufacturing at port sites.

DECC will look to develop new ways of working with the private sector, allowing it to act as an enabler rather than a provider. Extra support to reduce energy bills and help improve heating and insulation will be provided by energy companies to combat fuel poverty. This will allow the Warm Front public spending programme to be phased out over time.

DECC will also simplify the CRC energy efficiency scheme to reduce its burden on business. Revenues from the allowance sales will be used to support public finances, including spending on the environment.

Foreign and Commonwealth Office

Table 2.14: Foreign and Commonwealth Office

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹	1.4	1.5	1.5	1.4	1.2
Capital DEL	0.2	0.1	0.1	0.1	0.1
Total DEL	1.6	1.6	1.6	1.5	1.3
Departmental AME	0.0	0.0	0.0	0.0	0.0

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

The Foreign and Commonwealth Office (FCO) will make overall resource savings of 24 per cent in real terms over the period of the spending review. This will be achieved by cutting non essential programmes, a new centralised corporate service function and reductions to the global FCO workforce.

The FCO will also receive funding to maintain a global network that works for British interests abroad, including championing British companies to win exports and secure jobs at home.

Department for Culture, Media and Sport

Table 2.19: Department for Culture, Media and Sport

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹	1.4	1.4	1.3	1.2	1.1
Capital DEL	0.2	0.2	0.2	0.1	0.1
Total DEL	1.5	1.6	1.5	1.3	1.3
Departmental AME	5.6	5.4	5.6	5.4	5.5

¹ In this table, Resource DEL excludes depreciation and AME excludes non cash items

The Department for Culture, Media and Sport (DCMS) will make overall resource savings of 24 per cent in real terms over the spending review period through slimming down the department and its Arms Length Bodies, and focussing on key priorities.

The department's settlement includes investing in £530 million over the spending review period including £300 million from the TV license fee to improve the UK's broadband network and maintaining free entry to museums and galleries.

Today's announcement also announced a public sector funding package of £9.3 billion for the Olympic and Paralympic Games in 2012.

Department for Environment and Rural Affairs

Table 2.18: Department for Environment, Food and Rural Affairs

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹	2.3	2.2	2.1	2.0	1.8
Capital DEL	0.6	0.4	0.4	0.4	0.4
Total DEL	2.9	2.6	2.5	2.3	2.2
Departmental AME	0.1	0.1	0.1	0.1	0.1

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

The Department for Environment and Rural Affairs will face overall resource savings of 29 per cent in real terms by 2014-15 by reducing a number of Arms Length Bodies from 92 to 39 and focusing spending on key priorities.

Environmental stewardship schemes will deliver savings of £66 million a year by 2014-15, but will remain open to all farmers.

Investment will continue in flood and coastal erosion management, with £2 billion being spent in total over the Spending Review period.

Department for Education

Department for Education					
	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹	50.8	51.2	52.1	52.9	53.9
Capital DEL	7.6	4.9	4.2	3.3	3.4
Total DEL	58.4	56.1	56.3	56.2	57.2

¹ In this table, Resource DEL excludes depreciation

The Department for Education agreement includes a 12 per cent saving in real terms over the spending review period from the non schools budget. There will be, however, a real term increase of 0.1 per cent in each year of the spending review for the 5 to 16s school budget, including a £2.5 billion pupil premium.

The spending review announced that, from 2012-13, all disadvantaged two year olds will have access to 15 hours a week of early years education and care, and the universal entitlement to 15 hours for all three and four year olds will be maintained.

Sure Start services will be maintained in cash terms, including new investment in Sure Start health visitors. The government also announced that it intends to refocus Sure Start on its original purpose of improving the life chances of disadvantaged children.

The government has also pledged to rebuild or refurbish over 600 schools from the Building Schools for the Future and Academies programme.

Department for International Development

Table 2.15: Department for International Development (DFID)

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL ¹	6.3	6.7	7.2	9.4	9.4
Capital DEL	1.6	1.4	1.6	1.9	2.0
TOTAL DEL	7.8	8.1	8.8	11.3	11.5
Departmental AME	0.1	0.1	0.1	0.1	0.1

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

The Department for International Development (DfID) settlement includes an increase in Official Development Assistance to 0.7 per cent of Gross National Income from 2013 and a new Independent Commission of Aid Impact to assess all ODA spending, ensuring effectiveness and best value for money in all programmes.

Devolved Administrations

Table 2.22: Devolved Administrations

	£ billion				
	2010-11	2011-12	2012-13	2013-14	2014-15
Scotland					
Resource DEL ¹	24.8	24.8	25.1	25.3	25.4
Capital DEL	3.4	2.5	2.5	2.2	2.3
Total DEL	28.2	27.3	27.6	27.5	27.7
Departmental AME	0.0	0.1	0.2	0.3	0.4

1 In this table, Resource DEL excludes depreciation and AME excludes non cash items

The devolved administrations of Scotland, Wales and Northern Ireland will face a real terms reduction of 7 per cent.

Specifically, Scotland will receive an additional £250 million through the green investment bank for investment in green infrastructure. The Northern Ireland Executive will also receive a £175 million loan and £25 million access fund to ensure a fair resolution to the issues arising from the collapse of the Presbyterian Mutual Society.

Appendix

**TABLE 1- DEPARTMENTAL PROGRAMME AND ADMINISTRATION BUDGETS
(RESOURCE DEL EXCLUDING DEPRECIATION)**

Table 1: Departmental Programme and Administration Budgets (Resource DEL excluding depreciation¹)

	£ billion					Per cent Cumulative real growth
	Baseline ²	Plans				
	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)

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

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
<i>of which current AME savings</i>	<i>290</i>	<i>3,155</i>	<i>8,100</i>	<i>9,835</i>

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.