

## Executive Summary

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The Spending Round is the next stage in the Government's plan to move Britain from rescue to recovery. In 2010, the Government inherited the largest deficit since the Second World War and one pound in every four that the Government spent was borrowed. Thanks to the tough choices taken since then, progress is already being made: the economy is growing, more than a million new jobs have been created by British businesses, and the amount the Government has to borrow each year – the deficit – is down by one third.

The Government's economic plan has three parts: keeping mortgage rates low for families and fixing the banks to support investment in business; dealing with the country's debts to maintain confidence in the UK's ability to pay its way; and long-term economic reform to back aspiration and equip Britain to win the global race. The Spending Round sets out how the Government will continue to reduce the deficit by taking difficult decisions to cut public spending and prioritise investment in infrastructure to deliver a stronger economy and fairer society.

The Government has proved that there does not have to be a choice between excellent public services and public services that the UK can afford. Because spending reductions since 2010 have been accompanied by reforms to how services are delivered, crime is at its lowest level in 30 years, school standards have risen and employment is at record levels.

### Spending Round 2013

The Spending Round provides an opportunity to make new choices about how to prioritise spending over the rest of the Parliament in line with the Government's economic plan.

The Government will reduce current spending by £11.5 billion in 2015-16, allowing it to increase capital spending plans by £3 billion a year from 2015-16 and by £18 billion over the next Parliament. This will boost investment in infrastructure to support economic growth at the same time as ensuring a sustained reduction in the deficit. Without the £3.6 billion savings from the welfare budget in 2015-16 that were announced at Autumn Statement 2012, reductions in departmental spending would have been commensurately higher. The Government will protect spending on health, schools and overseas development – maintaining the vital public services that everyone relies on at home, and supporting the poorest overseas.

The Spending Round sets out a series of investment decisions and reforms that demonstrate how the Government is prioritising growth, transforming public service delivery, controlling welfare spending, driving out efficiency savings and ensuring fairness in its plans for spending in 2015-16.

### Growth

The Government is prioritising spending on long-term infrastructure projects and other programmes that will promote economic growth. The Spending Round:

- sets out a long-term plan for capital investment to 2020 and beyond, and capital spending allocations for all departments for 2015-16. Details will be announced in *Investing in*

*Britain's Future* of how over £100 billion of infrastructure investment will be allocated over the next Parliament;

- invests £9.5 billion in the UK's transport network in 2015-16;
- maintains resource funding for science in cash terms at £4.6 billion in 2015-16, increases capital funding in real terms from £0.6 billion in 2012-13 to £1.1 billion in 2015-16, and sets a long-term capital budget for science in the next Parliament growing in line with inflation to 2020-21;
- provides funding for up to 180 new Free Schools, 20 Studio Schools and 20 University Technical Colleges a year, supporting the next stage of schools reform to increase choice for parents and equip young people with the skills they need to succeed; and
- strengthens trade and investment links with China. The Government will develop proposals with the private sector to establish business centres in the fastest growing cities as a base for small and medium-sized exporters, and will support small businesses to access the Chinese market through e-commerce.

## Public service reform

Building on the announcements made in Spending Review 2010, the Spending Round sets out how the Government will continue its ambitious programme of public service transformation.

One of the best ways to maintain the quality of services while reducing the cost to the taxpayer is for the Government to encourage and help public services in a local area to work more closely together to cut out duplication and invest in reducing demand for costly services. The Spending Round announces that the Government will:

- put £3.8 billion into a pooled budget for health and social care services to work more closely together in local areas, in order to deliver better services to older and disabled people, keeping them out of hospital and avoiding long hospital stays; and £200 million for local authorities from the NHS in 2014-15 to ensure change can start immediately through investment in new systems and ways of working;
- invest £200 million to extend the Troubled Families programme and change the way that local authorities, health, education and criminal justice services work with a further 400,000 vulnerable families. These families have multiple problems which create issues for their community and have a high cost to the public sector. The programme aims to tackle problems before they need costly intervention; and
- create an innovation fund of up to £50 million for police forces to work jointly with each other and with local authorities on new and more efficient ways to prevent crime and ensure people feel safe.

Since 2010, the Government has improved the delivery and operation of all major public services. The Spending Round builds on this achievement, with new changes to how services are funded and delivered. The Government will:

- launch an action plan to make the criminal justice system work together more effectively, creating a fully integrated system based around a common digital platform from police station to courtroom, ensuring that victims and witnesses get the efficient and user friendly system they deserve;
- speed up the resolution of cases where the defendant is likely to plead guilty and transfer motoring offences to special traffic courts to free up court time for more serious cases;

- make £335 million available to local authorities in 2015-16 so that they can prepare for reforms to the system of social care funding, including the introduction of a cap on care costs from April 2016 and a universal offer of deferred payment agreements from April 2015. This will mean that no-one will face unlimited care costs and no-one will be forced to sell their home in their lifetime to pay for residential care;
- consult on how best to introduce a fair national funding formula for schools in 2015-16 – supporting schools reform and taking a vital step towards fixing the historic and unfair differences in funding between schools in different local authorities. In future, the amount of funding a school receives will be based on a fair and rational assessment of the needs of its pupils – including how many are deprived;
- create a £1 billion Conflict, Stability and Security Fund, pooling new and existing resources across government to prevent conflict and tackle threats to UK interests that arise from instability overseas. The National Security Council (NSC) will set priorities for the Fund, drawing on the most effective combination of defence, diplomacy, development assistance, security and intelligence; and
- pilot new operational freedoms to help the museums sector to continue to thrive and to become more financially independent. National museums will have greater autonomy to take independent decisions on issues such as pay and procurement, and to access finance to unlock new projects, commercial revenues and philanthropic donations.

## Welfare

In the decade before the financial crisis, welfare spending rose by 20 per cent in real terms, leaving reduced resources available for other public services. The Government's significant reforms to the welfare system will put welfare spending on a more sustainable footing, reduce pressure on public services, target help at those who need it most, and ensure that the system makes work pay.

In 2010, the Government announced welfare savings worth £18 billion in 2014-15 and a further £3.6 billion savings in 2015-16 were announced at Autumn Statement 2012. To date, the Government has implemented measures that deliver over 90 per cent of the total savings expected from reforms to the welfare system, significantly reducing pressure on other public services.

The Spending Round announces new measures to support people to move into work, to improve welfare spending control and to ensure that the welfare system remains affordable.

Building on the current regime, the Spending Round announces a significant reform package that increases the support and requirements placed upon claimants by:

- introducing upfront work search, requiring all claimants to prepare for work and search for jobs right from the start of their claim;
- introducing weekly rather than fortnightly visits to Jobcentres for half of all jobseekers;
- requiring all unemployed claimants, and those earning less than the Government expects them to, to wait seven days before becoming eligible for financial support;
- requiring all claimants who are subject to conditionality to verify their claim every year;
- requiring all claimants whose poor spoken English is a barrier to work to improve their English language skills; and
- requiring lone parents who are not working to prepare for work once the youngest child turns three.

Together these reforms will deliver over £350 million in annual savings, including savings from claimants leaving welfare more quickly. All of these savings will be reinvested in more help for claimants to get back into work and in the cost of enforcing the new conditions.

The Spending Round also announces that the Government will, for the first time, introduce a cap on the country's welfare spending to improve spending control, support fiscal consolidation and ensure that welfare remains affordable. The cap will apply to over £100 billion of welfare spending. The basic and additional state pension will be excluded. In addition, the cap will take account of the automatic stabilisers by excluding the most counter-cyclical elements of welfare, such as Jobseeker's Allowance (JSA) and any passported expenditure. All other social security and tax credits expenditure will be included. Over the coming months, the Government will consider whether it is appropriate to include other elements of Annually Managed Expenditure (AME) in the cap.

A nominal cap will be set from 2015-16, supporting the delivery of fiscal consolidation during the Spending Round and beyond. The Government will set the cap at Budget 2014 alongside the Office for Budget Responsibility's (OBR) fiscal forecast.

## Efficiency

The Government will deliver over £5 billion further efficiency savings in 2015-16 through stopping wasteful expenditure, transforming transactional services, and reducing the running costs of Government. These reductions include:

- £1.9 billion from departmental administration budgets in 2015-16, an overall reduction of around 40 per cent since 2010 in the cost of running Whitehall departments;
- over £1.5 billion from the Government's projects portfolio through scaling back or stopping non-priority projects, and better project management; and
- around £1 billion from ensuring that the Government acts effectively as a single customer when purchasing goods and services.

Public sector pay awards will be limited to an average of up to 1 per cent in 2015-16, saving at least £1.3 billion. Departments will be putting in place plans to end automatic time-served progression pay in the civil service by 2015-16. In addition, substantial reforms to progression pay will be taken forward or are already underway for teachers, the health service, prisons and the police – ensuring that public sector workers do not receive pay increases purely as a result of time in post.

## Fairness

The Government remains committed to creating a society in which there is high social mobility, the vulnerable are looked after, everyone makes a fair contribution in tax and takes only their fair share in benefits, and those with the broadest shoulders continue to make the biggest contribution to fiscal consolidation. In the Spending Round the Government is:

- ensuring that future generations do not have to pay for excessive spending in the present, by continuing on a path of sustainable deficit reduction;
- protecting funding for schools in real terms, including the Pupil Premium that provides additional funding for disadvantaged pupils;
- ensuring that spending on health continues to rise in real terms and providing £2 billion additional funding through the NHS for local health and care services to meet the needs of older and disabled people;

- consulting in July on the details of the new scheme of Tax-Free Childcare announced at Budget 2013 that will support working families with childcare costs from autumn 2015. The existing entitlement to 15 hours a week of free early education for all three-and four-year olds will continue, and will be extended to around 40 per cent of two-year olds by 2014-15, benefitting the less advantaged;
- targetting resources on the needs of people with disabilities – in particular through the protection of funding for health and schools, and support for those with mental health problems and for disabled people in the employment market;
- making funding available for local authorities that choose to freeze their council tax in 2014-15 and 2015-16, and planning to set a council tax referendum threshold in each of those years that gives local people a say if their council tax rises by more than 2 per cent;
- increasing Her Majesty's Revenue and Customs' (HMRC) target for raising additional revenues, including from tackling tax avoidance and evasion, to £24.5 billion in 2015-16;
- protecting spending on international development at 0.7 per cent of gross national income (GNI), promoting fairness for the people across the world whose economies are most in need of development; and
- announcing that from autumn 2015, Winter Fuel Payments will no longer be payable to people living in a European country with an average winter temperature higher than the UK, saving £30 million a year. This is in response to a recent European court judgement that means more people in Europe can now claim Winter Fuel Payments.