



HM Treasury

SPENDING ROUND 2013



SPENDING ROUND 2013

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the Chancellor of the Exchequer
by Command of Her Majesty

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Executive Summary

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.

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

| | £ billion | | Per cent |
|--|----------------------------------|------------------|-----------------------------|
| | Baseline ² 2014-15 | Plans 2015-16 | Year-on-year real growth |
| Departmental Programme and Administration Budgets | | | |
| Education ³ | 52.8 | 53.2 | -1.0 |
| NHS (Health) | 108.3 | 110.4 | 0.1 |
| Transport | 3.5 | 3.2 | -9.3 |
| DCLG Communities | 1.2 | 1.1 | -10.0 |
| DCLG Local Government ⁴ | 25.6 | 23.5 | -10.0 |
| Business, Innovation and Skills | 13.6 | 13.0 | -5.9 |
| Home Office | 10.4 | 9.9 | -6.1 |
| Justice | 6.8 | 6.2 | -10.0 |
| Law Officers' Departments | 0.5 | 0.5 | -5.0 |
| Defence | 23.9 | 23.9 | -1.9 |
| Foreign and Commonwealth Office ⁵ | 1.2 | 1.1 | -6.3 |
| International Development | 8.3 | 8.5 | 1.1 |
| Energy and Climate Change | 1.0 | 1.0 | -8.0 |
| Environment, Food and Rural Affairs | 1.7 | 1.6 | -9.6 |
| Culture, Media and Sport | 1.2 | 1.1 | -7.0 |
| Work and Pensions | 5.5 | 5.0 | -9.5 |
| <i>DWP non-baselined funding⁶</i> | 1.9 | 0.9 | – |
| Scotland ⁷ | 25.6 | 25.7 | -1.5 |
| Wales ⁷ | 13.6 | 13.6 | -1.8 |
| Northern Ireland ⁷ | 9.6 | 9.6 | -1.5 |
| HM Revenue and Customs | 3.2 | 3.1 | -5.0 |
| HM Treasury | 0.1 | 0.1 | -10.0 |
| Cabinet Office ⁸ | 0.4 | 0.3 | -10.1 |
| Single Intelligence Account | 1.6 | 1.7 | 3.4 |
| Small and Independent Bodies ⁹ | 1.3 | 1.3 | -2.0 |
| Spending commitments not yet in budgets ¹⁰ | – | 1.1 | – |
| Reserve | 2.8 | 2.8 | 0.0 |
| Special Reserve | 1.8 | 1.0 | -44.1 |
| <i>Localised business rates⁴</i> | <i>-11.2</i> | <i>-11.6</i> | <i>–</i> |
| Total Resource DEL excluding depreciation | 316.0 | 312.9 | -2.7 |
| <i>Adjustment for Allowance for Shortfall, Budget Exchange and non-baselined funding</i> | <i>-0.4</i> | <i>0.0</i> | <i>–</i> |
| Total Resource DEL excluding depreciation forecast | 315.7 | 312.9 | -2.6 |
| <i>Memo:</i> | | | |
| <i>Local Government Spending¹¹</i> | <i>54.8</i> | <i>54.5</i> | <i>-2.3</i> |

¹ Resource DEL excluding depreciation is the Treasury's primary control total within resource budgets and the basis on which Spending Review 2010 settlements were made.

² As at all spending reviews, baselines exclude one-off and time-limited expenditure.

³ Includes the Office of the Qualifications and Examinations Regulation (Ofqual) and the Office for Standards in Education, Children's Services and Skills (Ofsted).

⁴ Includes the OBR forecast for localised business rates that local authorities can now retain following changes to the local government finance system, but does not yet include the council tax freeze grants announced as part of the Spending Round.

⁵ The FCO's budget excluding Official Development Aid reduces by 7.8%.

⁶ Includes funding for the implementation of major reform programmes and some volume based employment activity.

⁷ Settlements for the Scottish Government, Welsh Government and Northern Ireland Executive are determined by the Barnett formula, which reflects the devolution settlement in those countries. Wales benefits from greater direct spending by UK Government departments on functions which are otherwise devolved to the Scottish Government and Northern Ireland Executive such as police and rail.

⁸ These totals exclude funding for Individual Voter Registration and the General Election in 2015-16.

⁹ A more detailed breakdown is set out in Table 2.23.

¹⁰ Includes funding for the Mid-Term Review childcare policy; employee ownership measures from Budget 2013; the National Cyber Security Fund; 2014-15 and 2015-16 council tax measures; and the Supporting Work interventions. £0.6bn of this is funded from Resource AME savings announced at this Spending Round.

¹¹ Local Government Spending includes central government grants to local authorities (including Revenue Support Grant) plus the OBR's forecast of council tax and the local share of business rates, and is a measure of the resources available for council services. Values are based on indicative allocations from departments.

Table 2: Departmental Capital Budgets (Capital DEL)

| | £ billion | | Per cent |
|--|-------------|-------------------------------|-----------------------------|
| | 2014-15 | Plans ¹ 2015-16 | Year-on-year real growth |
| Capital DEL | | | |
| Education | 4.6 | 4.6 | -1.7 |
| NHS (Health) | 4.6 | 4.7 | 0.1 |
| Transport | 8.9 | 9.5 | 5.5 |
| DCLG Communities | 4.8 | 3.1 | -35.6 |
| Business, Innovation and Skills ² | 2.1 | 2.5 | 15.3 |
| Home Office | 0.5 | 0.4 | -17.6 |
| Justice | 0.3 | 0.4 | 14.2 |
| Law Officers' Departments | 0.0 | 0.0 | 1.7 |
| Defence ³ | 8.7 | 8.7 | -2.3 |
| Foreign and Commonwealth Office | 0.1 | 0.1 | -1.8 |
| International Development | 2.0 | 2.6 | 25.6 |
| Energy and Climate Change | 2.2 | 2.3 | 3.1 |
| Environment, Food and Rural Affairs | 0.5 | 0.5 | -7.7 |
| Culture, Media and Sport ⁴ | 0.3 | 0.1 | -57.6 |
| Work and Pensions | 0.2 | 0.2 | -22.5 |
| Scotland ⁵ | 2.8 | 3.0 | 2.7 |
| Wales ⁵ | 1.4 | 1.5 | 0.3 |
| Northern Ireland ⁵ | 1.0 | 1.1 | 1.5 |
| HM Revenue and Customs | 0.1 | 0.1 | -1.9 |
| HM Treasury | 0.0 | 0.0 | -26.3 |
| Cabinet Office | 0.0 | 0.0 | -31.7 |
| Single Intelligence Account | 0.3 | 0.3 | 24.2 |
| Small and Independent Bodies | 0.1 | 0.1 | 5.7 |
| Green Investment Bank | 0.0 | 1.3 | – |
| Adjustment for Devolved Administration borrowing | 0.1 | 0.3 | – |
| Spending commitments not yet in budgets | 0.0 | 0.4 | – |
| Reserve | 0.9 | 0.5 | – |
| Special Reserve | 0.3 | 0.0 | – |
| Total Capital DEL | 46.9 | 48.3 | 1.3 |
| CDEL not in PSGI ⁶ | -9.0 | -11.2 | – |
| PSGI Allowance for Shortfall ⁷ | -1.0 | -1.0 | – |
| PSGI in CAME | 13.5 | 14.3 | – |
| PSGI | 50.4 | 50.4 | -1.7 |

¹ For capital budgets, 2015-16 plans are compared with 2014-15 control totals.

² Excluding financial transactions, BIS CDEL rises by 8.7% in real terms.

³ This excludes any additional carry forward into the MoD's 2014-15 control total as the exact profile is yet to be agreed.

⁴ The overall change to DCMS capital funding in 2015-16 compared to 2014-15 is lower, owing to broadband spending currently profiled in AME and the change in treatment of national museum reserves.

⁵ Settlements for the Scottish Government, Welsh Government and Northern Ireland Executive are determined by the Barnett formula, which reflects the devolution settlements in those countries. Wales benefits from greater direct spending by UK Government departments, on functions which are otherwise devolved to the Scottish Government and Northern Ireland Executive, such as rail.

⁶ Capital DEL that does not form part of public sector gross investment, including financial transactions and Single Use Military Equipment (SUME).

⁷ As set out in paragraph 1.12 in 2015-16, the Government is over-allocating PSGI by an equivalent amount to the OBR's 2014-15 Allowance for Shortfall.

Table 3: Spending Round AME policy measures¹

| | £ million | | | | |
|---|-----------|------------|------------|------------|------------|
| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| Supporting work² | | | | | |
| Additional interviews throughout claim | 0 | 0 | 95 | 130 | 130 |
| Seven waiting days for unemployed claimants | 0 | 0 | 245 | 260 | 260 |
| Three-monthly interviews | 0 | 0 | 25 | 35 | 35 |
| Other AME policy | | | | | |
| Social rent uprating policy | 0 | 0 | 180 | 305 | 540 |
| DWP benefits: recovering debt | 20 | 50 | 55 | 25 | 0 |
| Tax Credits: recovering debt | 10 | 70 | 0 | 0 | 0 |
| Pension Credit: abolish Assessed Income Periods | 0 | 0 | 0 | 15 | 45 |
| Museums: operational and financial freedoms | 20 | 10 | 40 | 20 | 0 |
| Manchester City Deal | 0 | 0 | 0 | -155 | -145 |
| Total AME measures | 50 | 130 | 640 | 635 | 865 |
| <i>Of which current AME</i> | <i>40</i> | <i>105</i> | <i>570</i> | <i>735</i> | <i>935</i> |

¹ Positive numbers in this table indicate an exchequer saving from reduced AME spending. Costings reflect the OBR's latest economic determinants, as set out in the March 2013 Economic and Fiscal Outlook. Spending measures do not have a direct effect on borrowing after 2014-15 as they are contained within the overall envelope for Total Managed Expenditure. The costings only show the direct effects on AME and do not take into account any direct effect on receipts, such as changes in Tax Credits that not only affect AME but also change negative tax. Any effects on receipts will be taken on at the Autumn Statement forecast.

² Costings are on a GB basis.

1

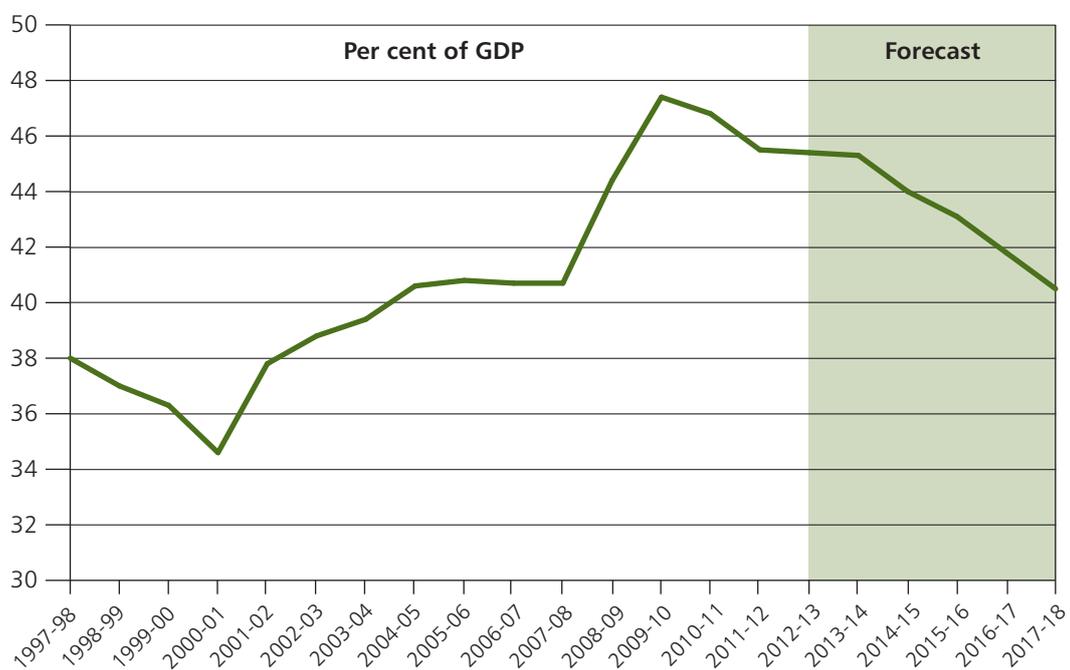
Overview

Introduction

1.1 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.¹ Deficit reduction is essential to returning the public finances to a sustainable position and maintaining fiscal credibility. This 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.

1.2 Public spending control remains central to the Government's objective of deficit reduction. As shown in Chart 1.1, during the financial crisis, public spending increased from 40.7 per cent of GDP in 2007-8 to 47.4 per cent in 2009-10 as the economy shrank and public spending plans remained unchanged in cash terms.

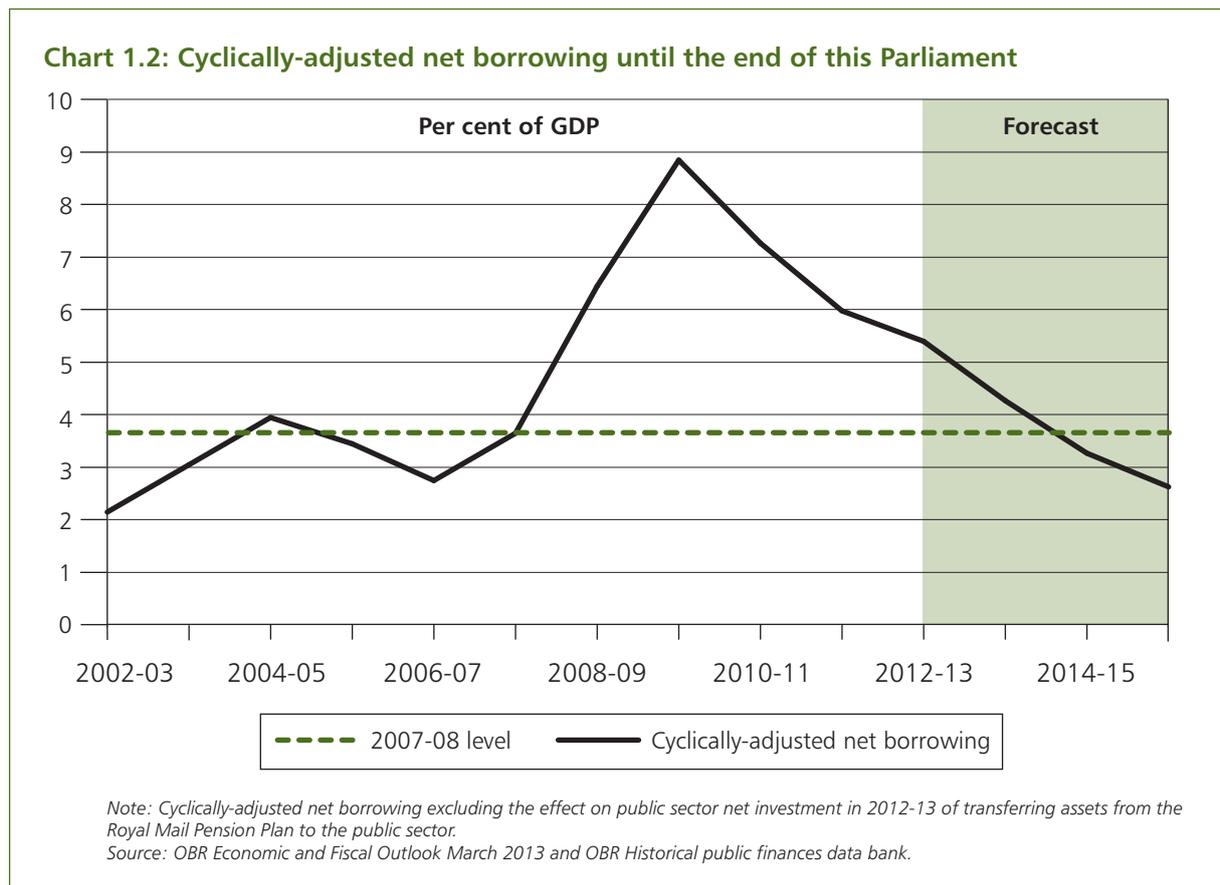
Chart 1.1: Total Managed Expenditure as a per cent of GDP



Note: TME excluding the effect on public sector net investment in 2012-13 of transferring assets from the Royal Mail Pension Plan to the public sector.
Source: ONS Public Sector Finance Supplementary Table April 2013 and OBR March 2013 Economic and Fiscal Outlook.

1.3 This Government has taken unprecedented action to reform public services and tighten spending control, embedding sustainable cost reduction into the management of public spending. The reductions implemented since 2010, grounded in policy reform, have played an essential role in mitigating the risk of a costly loss of market confidence in the UK. As a result, cumulative debt interest payments from 2010-11 to 2015-16 are forecast to be £31 billion lower than expected at the June Budget in 2010.

1.4 The Government has made significant progress in reversing the unprecedented rise in borrowing in order to reduce the deficit. The deficit has been reduced by a third as a percentage of GDP in the three years from 2009-10.² While revenues have been worse than expected, the Government is still on track to deliver the plans set out at Spending Review 2010.



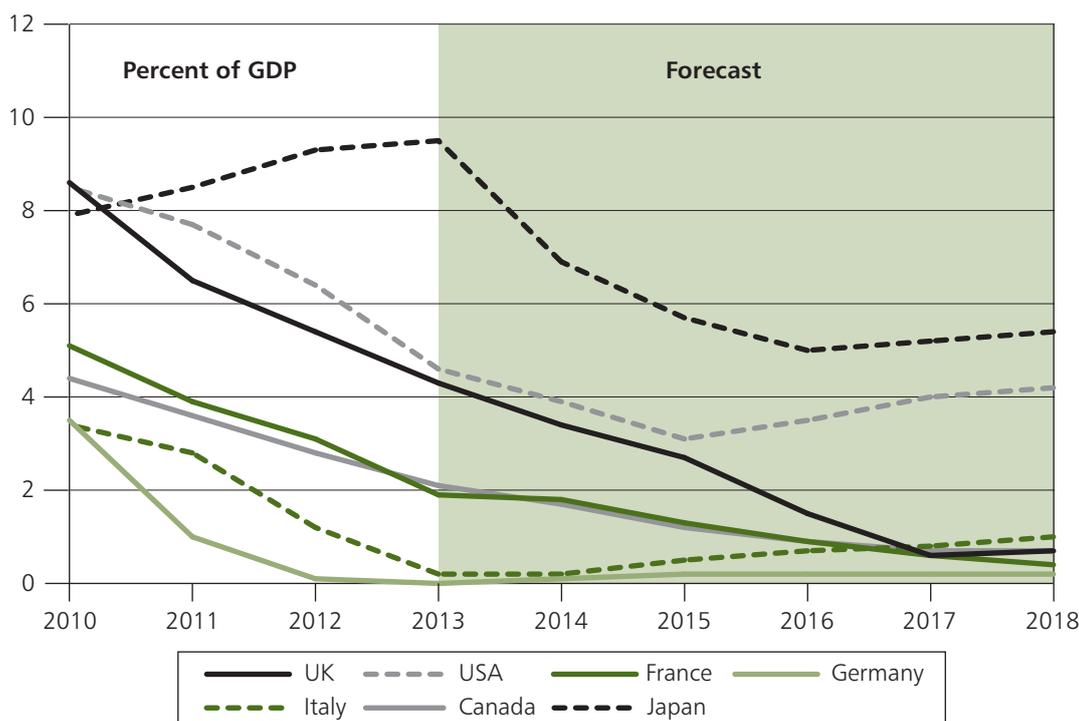
1.5 Cyclically-adjusted net borrowing, a measure of the deficit that excludes the effects of the economic cycle and so illustrates the underlying fiscal position, is forecast to fall below the pre-crisis level by the end of this Parliament (see Chart 1.2). In total, and as shown by Chart 1.3, cyclically-adjusted general government net borrowing, an internationally comparable measure, is forecast to fall by 4.3 per cent of GDP between 2010 and 2013, a larger reduction than any other country in the G7.³ As a result of the UK's clear, credible and specific consolidation plans, the International Monetary Fund (IMF) forecasts that the UK's structural deficit will fall below the G7 average by 2016.⁴

² OBR, *Economic and fiscal outlook*, March 2013, available at www.budgetresponsibility.independent.gov.uk.

³ IMF *Fiscal Monitor April 2013*, available at www.imf.org.

⁴ IMF *Fiscal Monitor April 2013*, available at www.imf.org.

Chart 1.3: Cyclically-adjusted general government net borrowing



Source: IMF Fiscal Forecast April 2013

Progress since Spending Review 2010

1.6 As a result of the tough choices and policy reforms announced at Spending Review 2010, 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:

- Reforming the welfare system.** Welfare spending rose by 20 per cent in real terms in the decade before the financial crisis.⁵ To bring these costs under control, the Government has implemented a major package of welfare reform to deliver savings of £18 billion in 2014-15 and a further £3.6 billion in 2015-16. This includes the introduction of the Household Benefit Cap, the phased introduction of Universal Credit and Personal Independence Payments, changes to the annual uprating of some benefits and tax credits, and measures to help reduce the cost of Housing Benefit, while increasing fairness and efficiency in the system.
- Increasing spending on health.** The Government has protected spending on health in real terms. The NHS is exceeding its targets on waiting times for inpatient and outpatient care. Of those currently waiting for treatment, 94.5 per cent have waited less than 18 weeks and the number of patients waiting over 52 weeks for treatment has fallen by 97.9 per cent, with 388 patients waiting in April 2013, compared with 18,458 in May 2010.⁶
- Increasing spending on schools.** Since 2010, spending on schools has also increased in real terms.⁷ The Government has accelerated the academies programme to give thousands of schools more freedom over how they operate, opened 81 Free Schools to increase choice for parents, and introduced the Pupil Premium to provide additional funding for disadvantaged pupils.⁸ School standards have improved significantly: for example, the percentage of pupils

⁵ ONS Statistical Bulletin: Public Sector Finances May 2013, available at www.ons.gov.uk.

⁶ Consultant-led Referral to Treatment Waiting Times Data 2013-14, available at www.england.nhs.uk.

⁷ Department for Education budget allocations.

⁸ Press noble: More than 100 Free Schools applications approved, Department for Education, May 2013.

in English state schools who received five A⁺–C grade GCSEs or equivalents including English and Maths was 58.8 per cent in 2012, up from 55.1 per cent in 2010.⁹

- **Reducing wasteful spending.** By 2014-15, departments will be saving £20 billion a year compared to 2010 through a programme of collective action to drive efficiencies and reduce wasteful expenditure. The Government had already achieved half of these savings by April 2013.¹⁰
- **Reforming public service pensions.** The cost of public service pensions has risen by over a third in the last 10 years.¹¹ The Government has set out a package of reforms to rebalance taxpayer and member contributions in the short term, and to ensure that costs are sustainable and fair in the long term. The new scheme designs, rebalancing of contributions between members and the taxpayer, and switch to uprating by the Consumer Price Index (CPI) are forecast to save £430 billion over the next 50 years.¹²
- **Exercising public sector pay restraint.** During the 2008-09 recession, pay fell by more than 1 per cent on average in the private sector, while public sector workers saw an average pay increase of over 4 per cent.¹³ In response, the Government has exercised firm restraint over public sector pay, and this is expected to save an estimated £12 billion by 2014-15.¹⁴
- **Rebalancing employment.** Despite concerns in 2010 that a reduction in public sector employment would lead to up to half a million job losses, for every one job lost in the public sector since then, three jobs have been created in the private sector. Over the last year, this has risen to five.¹⁵ Since the three months to April 2010, employment has increased by 914,000.¹⁶
- **Supporting local growth and reform of local services.** The Government has already initiated an historic shift of power to local areas by removing ringfences from £7 billion of local government funding and giving councils the ability retain 50 per cent of the business rates they collect.¹⁷
- **Increasing the availability of social housing.** The Government's affordable rent model has substantially reduced the level of public funding needed to build new affordable homes. By April 2013, the Government had already delivered over 84,000 new affordable homes and is on track to deliver a total of 170,000 by 2014-15.¹⁸
- **Reforming higher education funding.** Reforms to higher education funding will generate annual savings of £3 billion by 2014-15 and place higher education spending on a more sustainable footing. Despite concerns that these changes would discourage students from poorer backgrounds, at the January application deadline for 2013 entry, the proportion of 18-year olds from the most deprived neighbourhoods applying to go to university was at its highest rate ever.¹⁹

⁹ *Revised GCSE and Equivalent Results in England*, Department for Education, 2010-2012, available at www.gov.uk.

¹⁰ *Efficiency and Reform 2012-13 summary report*, available at www.gov.uk; efficiency savings are measured against a 2009-10 baseline.

¹¹ *Public Service Pensions: good pensions that last*, available at www.gov.uk.

¹² HM Treasury estimate based on figures in *OBR Fiscal Sustainability Report 2012*, available at www.budgetresponsibility.independent.gov.uk.

¹³ Compares average weekly earnings in the private and public sector 2008 Q1 - 2009 Q3, where the public sector excludes financial services. ONS codes KAC4 and KAD8.

¹⁴ HM Treasury analysis compared to a counterfactual scenario of 2 per cent average pay awards over the Spending Review 2010 period, including savings recycled in ring-fenced budgets.

¹⁵ *ONS Public Sector Employment, Q1 2013 Release*, available at www.ons.gov.uk.

¹⁶ Summary Table A01, *ONS Labour Market and Statistics Release*, available at www.ons.gov.uk.

¹⁷ *Ring-fences removed from local government funding streams*, available at www.communities.gov.uk.

¹⁸ 84,000: DCLG estimates; 170,000: Column 36WS, Written Ministerial Statement, 14 July 2011, available at www.parliament.uk.

¹⁹ Press release: *UK application rates by country, sex, age and background* (2013 cycle, January deadline), available at www.ucas.com.

- **Reforming the criminal justice system.** Crime is at its lowest level in 30 years, despite concerns that reductions to police spending would reduce police effectiveness.²⁰ In 2012, the first Police and Crime Commissioners were elected to improve the local accountability of policing, and the first review of police pay in 30 years will ensure fair pay and conditions and support frontline policing.
- **Increasing tax revenues.** In 2012-13, intervention by Her Majesty's Revenue and Customs (HMRC) delivered £20.7 billion of extra tax, £2 billion ahead of the target for that year and £6 billion more than in 2010-11.²¹

1.7 As a result of tighter spending control, at Budget 2013 departments were collectively forecast to underspend by £11.5 billion in 2012-13, compared to the Office for Budget Responsibility's (OBR) December 2012 forecast.²² This has contributed to departments being ahead of their spending reduction targets: around 65 per cent of the £80 billion of spending reductions predicted by 2014-15 has already been delivered, compared to 50 per cent planned at the time of Spending Review 2010.²³

1.8 These savings have enabled the Government to increase investment in growth-promoting infrastructure projects. Since 2010, the Government has increased capital spending plans by £10 billion in the Spending Review 2010 period, and by £18 billion over the next Parliament, so that public investment as a share of GDP is now higher on average over this decade than under the previous government.²⁴ It has also radically reformed the planning system, established Infrastructure UK to drive delivery at the heart of Whitehall, and published the first ever National Infrastructure Plan.²⁵

Departmental spending in 2015-16

1.9 There is more to do to reduce the deficit beyond the current Spending Review period. As announced at Budget 2013, the Government has set a fiscal assumption that Total Managed Expenditure (TME) will fall in real terms until 2017-18 at the same rate as over the Spending Review 2010 period. This Spending Round sets out detailed departmental spending plans for 2015-16, which starts within this Parliament.

1.10 The Government will deliver £10 billion savings from resource spending in 2015-16, on top of the £1.5 billion announced at Budget 2013. This will enable the Government to increase capital spending plans by £3 billion in 2015-16. 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 in real terms on health, schools and overseas development – maintaining the vital public services that everyone relies on at home, and supporting the poorest overseas.

1.11 In 2015-16, TME will be £744.7 billion, including £694.2 billion current and £50.4 billion capital spending. Table 1.1 sets out how these spending envelopes break down between Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME) as a result of decisions in the Spending Round.

²⁰*Crime Statistics, period ending December 2012*, available at www.ons.gov.uk. According to the Independent Crime Survey for England and Wales, crime is currently at its lowest level since the survey began in 1981.

²¹*How are we doing? HMRC's 2012-13 performance*, available at www.gov.uk.

²²*Budget 2013*, available at www.gov.uk.

²³Spending reductions are calculated against a baseline of DEL growing in line with general inflation in the economy from 2010-11 and AME as forecast. This is a different methodology from that used by the Institute for Fiscal Studies, which shows how the ratio of spending to GDP changes over time.

²⁴*ONS Statistical Bulletin: Gross Domestic Product, second estimate 2012 Q4; ONS Statistical Bulletin: Public Sector Finances January 2013 and October 2012; Treatment of the Sale of UK 3G Mobile Phone Licenses in the National Accounts, August 2011*, available at www.ons.gov.uk; plus *OBR March 2013 Economic and Fiscal Outlook* and *OBR Fiscal Sustainability Report*, available at www.budgetresponsibility.independent.gov.uk.

²⁵*National Infrastructure Plan 2010*, HM Treasury and Infrastructure UK, October 2010, available at www.gov.uk.

Table 1.1: Total Managed Expenditure¹

| | £ billion | | | | |
|--|--------------------|--------------|----------------------------|--------------|--------------|
| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| CURRENT EXPENDITURE | | | | | |
| Resource AME | 334.0 | 343.8 | 359.1 | 377.8 | 395.2 |
| Resource DEL, excluding depreciation | 320.7 | 315.7 | 312.9 | | |
| Ring-fenced depreciation | 18.1 | 20.4 | 22.3 | | |
| <i>Implied Resource DEL, including depreciation</i> | | | | 325.8 | 317.8 |
| Public sector current expenditure | 672.8 | 679.9 | 694.2 | 703.7 | 713.0 |
| CAPITAL EXPENDITURE | | | | | |
| Capital AME | 5.0 | 5.5 | 3.1 | 8.7 | 9.2 |
| Capital DEL | 42.2 | 44.9 | 47.3 | | |
| <i>Implied Capital DEL²</i> | | | | 42.6 | 42.9 |
| Public sector gross investment | 47.1 | 50.4 | 50.4 | 51.3 | 52.1 |
| TOTAL MANAGED EXPENDITURE | 720.0 | 730.3 | 744.7 | 754.9 | 765.1 |
| <i>Total Managed Expenditure (% GDP)</i> | <i>45.2%</i> | <i>44.0%</i> | <i>43.1%</i> | <i>41.8%</i> | <i>40.5%</i> |
| Envelope for Spending Round 2013 | | | 744.7 | | |
| <i>of which</i> | | | | | |
| Current spending envelope | | | 694.2 | | |
| Capital spending envelope | | | 50.4 | | |
| <i>Memo: TME baseline for years beyond 2014-15³</i> | | 735.9 | 744.7 | 754.9 | 765.1 |
| <i>Average annual real growth</i> | <i>SR10 period</i> | -0.4% | <i>Beyond SR10 period:</i> | | -0.4% |

¹ Budgeting totals are shown net of the OBR's forecast Allowance for Shortfall. Resource DEL excluding ring-fenced depreciation is the Treasury's primary control within resource budgets, and is the basis on which Spending Review 2010 settlements were agreed. The OBR publishes public sector current expenditure in DEL and AME, and public sector gross investment in DEL and AME. A reconciliation is published by the OBR.

² Implied Capital DEL reduces in 2016-17 as financial transactions measures announced at Budget 2013 and Spending Round 2013 are not included in the implied Capital DEL forecast. This does not affect the Public Sector Gross Investment forecast as it is offset by a corresponding adjustment to the Capital AME forecast.

³ TME in 2014-15 is higher in the baseline for calculating the assumption for the years beyond 2014-15 as a result of excluding the effect of all measures announced at Budget 2013 and Autumn Statement 2012, capital measures announced at Autumn Statement 2011, and the OBR's underspends forecast.

1.12 In order to maximise the growth impact of capital investment, it is important to utilise the capital envelope fully. In 2014-15, the OBR forecast an Allowance for Shortfall in Public Sector Gross Investment (PSGI) of £1 billion. In 2015-16, the Government will over-allocate PSGI by an equivalent amount. The OBR will make its own assessment of 2015-16 Allowance for Shortfall at Autumn Statement, as it has done previously.

1.13 Since 2010, the Government has taken firm action to ensure good financial management in departments, including by allocating capital spending to departments on the basis of economic evidence and tightening in-year spending control. High-quality financial management is key to ensuring that the Government continues to reduce the deficit and that taxpayers' money is spent as efficiently as possible. The Government will shortly announce a review to consider how the Treasury, working with departments, can further improve financial standards, the quality of management information and wider financial capability.

Growth

1.14 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. To further this plan, the Spending Round announces:

- **long-term plans for capital investment to 2020 and beyond, and capital spending allocations for all departments in 2015-16**, addressing a history of under-investment, short-term decision making, uncertainty in funding and financing, and failures in delivery. Further details on the Government's plans for UK infrastructure will be set out in *Investing in Britain's Future*; and
- **how the Government will prioritise spending in the areas that yield the highest economic returns**, including investing savings realised through greater public sector efficiency into transport, science and innovation, education and skills, the support that businesses need to export and grow, and further reforms to drive competition and cut red tape.

Infrastructure – planning for the long term

1.15 The Spending Round provides a firm foundation for investment in UK infrastructure to 2020 and beyond. The Government is today publishing capital allocations for all departments for 2015-16 and will set out shortly how over £100 billion of capital will be invested over the next Parliament in transport, science, schools, housing, broadband and flood defences.

Science and innovation

1.16 To ensure that the UK has the facilities to develop its world class research base and meet the Government's ambition of being the best place in the world to conduct scientific research, the Spending Round commits to:

- **maintaining resource funding for science in cash terms at £4.6 billion in 2015-16, as well as providing additional resource funding of £185 million for the Technology Strategy Board (TSB) to support innovation, including Catapult Centres and the Biomedical Catalyst;**
- **increasing science capital funding in real terms from £0.6 billion in 2012-13 to £1.1 billion in 2015-16, and in line with inflation to 2016-17.** The Government has increased capital spending on science over the course of this Parliament by £1.4 billion above the amount committed at Spending Review 2010, enabling significant investment in projects including autonomous robotics, Big Data, and major upgrades and new facilities at Harwell Science and Innovation Campus; and
- **providing long-term stability for science infrastructure over the next Parliament, to maximise the potential of the UK's world-leading scientific excellence.** The Government will:
 - **set an overall science capital budget which grows in line with inflation each year to 2020-21;**
 - **extend the Research Partnership Investment Fund (RPIF) to 2016-17**, making available at least £100 million each year of match-funding to leverage private investment in science infrastructure; and

- **commit to funding high-priority projects**, including the Synergistic Air-Breathing Rocket Engine (SABRE) and a new supercomputer for the Met Office.

1.17 The Government announced an expansion of the Small Business Research Initiative (SBRI) at Budget 2013. £100 million will be channelled through the scheme in 2013-14. This national programme supports a broad range of innovative companies, especially small businesses, to develop ground-breaking solutions to specific public sector needs. All departments will be expected to expand their use of the scheme. **The Spending Round announces specific targets for key departments for 2013-14, set out in Table 1.2.**

Table 1.2: SBRI targets in 2013-14 for selected departments

| Department | SBRI target 2013-14, £ million |
|-------------------------------------|--------------------------------|
| Defence | 50 |
| NHS (Health) | 30 |
| Transport | 7 |
| Home Office | 7 |
| Energy and Climate Change | 3 |
| Environment, Food and Rural Affairs | 3 |

Source: HMT data

Prioritising growth-enhancing spending

1.18 In addition to investing in UK infrastructure, the Government has made further choices about spending in 2015-16 to promote growth, focusing on education and skills, trade and investment and devolving economic powers from central government to local areas.

Education and skills

1.19 The Spending Round protects the schools budget, including the Pupil Premium, in real terms, and prioritises spending on apprenticeships. The Government will:

- **support the next stage of schools reform to free up the system and increase choice – including continued roll out of academies and funding for up to 180 new Free Schools, 20 new Studio Schools and 20 University Technical Colleges a year.** These changes will raise standards and help to equip more young people with the skills that employers need. More than half of all secondary schools in England are now academies, and 81 Free Schools have opened to date, with over 200 more in the pipeline;²⁶ and
- **consult this summer on options for major reform of apprenticeships funding to place purchasing power directly in the hands of employers.** This confirms the Government's commitment to implement the key reforms set out in the Richard Review, which will put employers at the centre of the apprenticeships system and raise standards.²⁷ The consultation will consider options to make payments to employers, including reform of BIS's delivery systems and use of HMRC's Pay As You Earn (PAYE) system.

Promoting trade and investment

1.20 To succeed in the global race and meet the challenge of sustainable growth, the Government has set an objective to double exports to £1 trillion by 2020; maintain the UK's position as the primary location for new inward Foreign Direct Investment (FDI) in Europe; and become the number one destination in Europe for FDI from emerging markets. The Spending Round goes further to support companies looking to export for the first time or grow exports beyond traditional markets, announcing that the Government will:

²⁶ Press releases: *Huge increase in academies takes total to more than 2,300*, Department for Education, September 2012; and *More than 100 free schools applications approved*, Department for Education, May 2013.

²⁷ *The Richard Review of Apprenticeships*, Doug Richard, November 2012.

- **provide funding certainty for UK Trade and Investment (UKTI) by maintaining support in 2015-16 for the additional export and inward investment programmes announced at Autumn Statement 2012.** This will enable UKTI to continue to deliver services to more small and medium-sized exporters and to focus on emerging markets and the highest value opportunities. The funding for UKTI in 2015-16 will be tied to a package of reforms to further strengthen the organisation's commercial focus;
- **strengthen trade and investment links with China.** As part of this, 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; and
- **provide the Foreign Office (FCO) with a further £70 million to expand their work with UKTI to put in place the right political, policy and regulatory conditions to promote growth overseas and create opportunities for the UK.** This will focus on lowering trade barriers and promoting global transparency to combat corruption and reduce costs for UK businesses.

Enabling local growth

1.21 The Government believes that local leaders and businesses are best placed to set the strategic direction for an area. The Spending Round underlines the Government's commitment to the devolution of economic powers from central government to local areas, putting business-led Local Enterprise Partnerships (LEPs), working with local partners, at the heart of promoting growth.

1.22 In response to Lord Heseltine's review, the Government committed to the creation of a Single Local Growth Fund (SLGF) in 2015-16.²⁸ **Funding for the SLGF is contained within departmental settlements and details will be set out in *Investing in Britain's Future*.**

Deregulation and competition

1.23 The Government is committed to ensuring that the UK has one of the most competitive economies in the world, underpinned by a strong competition regime to enforce the law and tackle uncompetitive behaviour that stifles innovation. **The Spending Round announces that the budget of the new Competition and Markets Authority (CMA) will be increased by £16 million in 2015-16, to enable it to tackle cartels more effectively and open up markets to new entrants, disruptive technologies and greater investment.** The creation of this new, combined competition authority marks the start of a new era of competition enforcement in the UK.

1.24 The Government is also taking action to ensure that public sector regulation does not hamper private sector investment and growth through the One-In, Two-Out rule for new regulation, and the Red Tape Challenge. **To continue this programme of reforms and drive greater competition, the Government has agreed with the regulators a £78 million cut in costs in 2015-16, at least a 5 per cent real terms reduction for most regulators.** Where costs are funded by fees, this will leave businesses with more money to invest or hire employees.

Devolved Administrations

1.25 The Government is working to ensure that the right decision-making powers are devolved to Scotland, Wales and Northern Ireland. The Spending Round announces that:

- **the Scottish Government will have capital borrowing powers of £296 million in 2015-16 to support infrastructure investment;**

²⁸*No Stone Unturned*, The Rt Hon the Lord Heseltine of Thenford CH, October 2012.

- **the Government has agreed to extend temporarily existing capital borrowing limits for the Northern Ireland Executive by £50 million in both 2014-15 and 2015-16**, to support investment in shared housing and education projects; and
- after careful consideration of the Silk Commission's first report on fiscal devolution to Wales, the Government recognises that the Welsh Assembly's financial accountability and autonomy would be enhanced if it were funded through a combination of block grant and self financing.²⁹ **The Government will finalise its detailed response and then explore with the Welsh Government how this can help to support a funding solution for the M4 improvement scheme in south Wales.**

Public service reform

1.26 The Spending Round builds on the programme of radical public service reforms which this Government began in 2010.

Transformation at local level

1.27 The Government has already initiated a historic shift of power from Westminster to local authorities – by removing ring-fences from £7 billion of local government funding, and by giving councils the ability to retain 50 per cent of the business rates they collect.³⁰

1.28 In order to deliver the best services for people at the lowest cost to the taxpayer, it is not enough for the Government simply to give more powers to local authorities. There is still a need to motivate and support all of the public services in a local area – including those not directly controlled by the local authority – to work more effectively together.

1.29 In 2011 the Government launched four Whole Place Community Budget pilots. In these areas, local services looked together at what services were like for the people who used them, and designed better, cheaper ways of delivering them. For example, London's Tri-Borough (Westminster, Hammersmith and Fulham, and the Royal Borough of Kensington and Chelsea) identified that 20 per cent of the local population with the most serious health conditions accounted for 77 per cent of health and social care costs, and designed integrated health and social care centres for them. Research for the Local Government Association (LGA) has now estimated that if the same approaches were rolled out nationwide, the public sector could make up to £20.6 billion in net savings over five years.³¹

1.30 The Government has therefore made better cooperation between services at local level a key objective for this Spending Round. Action will include:

- **putting £3.8 billion in a single pooled budget for health and social care services to work more closely together in local areas**, based on a plan agreed between the NHS and local authorities. This shared pot includes an additional £2 billion from the NHS and builds on the existing contribution of around £1 billion in 2014-15, with the aim of delivering better, more joined-up services to older and disabled people, to keep them out of hospital and to avoid long hospital stays. To ensure that closer integration between health and social care can start immediately, the NHS will make an extra £200 million available in 2014-15 as an upfront investment in new systems and ways of working that will benefit both services;

²⁹*Empowerment and Responsibility: Financial Powers to Strengthen Wales*, Commission on Devolution in Wales, November 2012.

³⁰*Local Government and the Spending Review*, DCLG, October 2013.

³¹*Local Public Service Transformation: A Guide to Whole Place Community Budgets*, HM Government and Local Government Association, March 2013; and *Whole Place Community Budgets: A Review of the Potential for Aggregation*, Local Government Association/Ernst & Young, January 2013.

- **investing £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 issues before they need expensive intervention;
- **creating 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; and
- **establishing a £30 million fund to help meet the upfront costs of transforming the fire service** and to act on the opportunities identified by the Knight Review, such as creating more emergency centres to accommodate the three blue light services, sharing back office functions and running joint response systems. The Government will respond fully to the Knight Review in autumn 2013.

1.31 The Government will also **provide £100 million to help local authorities to cover the initial costs of working with each other, such as new IT systems.** Other frontline public services will be given indicative funding allocations more than a year ahead of time, so that they can plan together with more confidence. The Government will establish a centre of excellence to reduce the complexity of sharing data between services, and will explore options for new legislation to that end.

New approaches to public service funding and delivery

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

1.33 The Government has made historic reforms to health and social care, placing clinicians at the centre of commissioning services for patients and joining up local health and care services. The Government has also committed to capping people's care costs and introduced a Care Bill which refocuses the law around the person not the service, strengthens rights for carers, and introduces a new minimum eligibility threshold for access to services. The Spending Round **provides £335 million to local authorities in 2015-16 to prepare for delivery of the capped costs system from April 2016 and a universal offer of deferred payment agreements from April 2015.** This investment begins a programme of reforms to social care funding which will mean that no-one will face unlimited care costs or be forced to sell their home in their lifetime to pay for residential care.

1.34 In the schools system, the Government has accelerated the academies programme – giving thousands of schools more freedom over how they operate. There are now 699 sponsored academies, and more than 2,000 further schools have opted for academy freedoms.³² At the same time, the Government has opened 81 Free Schools and approved over 200 more, offering real choice to parents.³³ The Spending Round supports the next stage of schools reform to free up the system and increase choice, including **continued roll-out of academies and funding for up to 180 new Free Schools, 20 University Technical Colleges and 20 Studio Schools a year.** The Government will also **consult on how best to introduce a fair national funding formula for schools in 2015-16** – supporting reform and taking a vital step towards fixing the historic and unfair differences in funding between schools in different local authorities. This, together with the **real-terms protection of the Pupil Premium,** providing extra funding for disadvantaged children, will ensure that funding gets to the schools and pupils that need it most.

³² *All Open Academies*, DfE, June 2013.

³³ *More than 100 Free Schools applications approved*, DfE Press Release, May 2013.

1.35 In the criminal justice system, the Government is **launching an action plan to make the criminal justice system work together more effectively**. Creating a fully integrated criminal justice system, based around a common digital platform from police station to courtroom, will ensure that victims and witnesses get the efficient and user-friendly system they deserve. A single online case file and the installation of modern IT in every courtroom will create a streamlined, paperless process, with less duplication, fewer delays and reduced scope for mistakes. The resolution of cases where the defendant is likely to plead guilty will be speeded up, reducing waste. At present, magistrates' courts hear around half a million motoring cases every year, with some taking over six months from offence to completion³⁴. In future, minor traffic offences which clog up the courts will be dealt with in special traffic courts, freeing up time to deal with more serious cases.

1.36 The UK's national museums and heritage institutions make a vital economic and social contribution. The Spending Round **limits reductions to national museum funding to 5 per cent and maintains the Government's commitment to free entry**. To help the sector thrive and continue to become more financially self-reliant, the Government has announced a four-year pilot of **new operational freedoms for museums**. This will enable national museums to take independent decisions on issues such as pay and procurement, and to access finance to unlock new projects, commercial revenues and philanthropic donations. In addition, the Government will work with English Heritage to consult on **establishing a charity to care for the historic properties in the National Heritage Collection on a self-financing basis**, supported by Government investment of £80 million.

1.37 Since 2010, the Government's Conflict Pool has made a vital contribution to conflict prevention and resolution overseas, including supporting political reconciliation in Somalia, providing police training in Libya, and helping reform the security sector in Mali. The Spending Round announces that the Government will build on the successes of the Conflict Pool by **pooling new and existing resources from across Government into a new Conflict, Stability and Security Fund of £1 billion** under the strategic direction of the National Security Council. It will fund a broader range of activity to help prevent conflict and tackle threats to UK interests that arise from instability overseas. The role of the National Security Council (NSC) in setting priorities for the Fund will ensure an integrated cross-government approach, drawing on the most effective combination of defence, diplomacy, development assistance, security and intelligence.

Welfare

1.38 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.³⁵ 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 on those who need it most, and ensure that the system makes work pay.

1.39 Many reforms announced by the Government to deliver these key objectives have already begun to be implemented. These include:

- the Household Benefit Cap, which will ensure no family receives more on benefits than the average family in work, which will save £190 million in 2015-16;
- uprating a wide range of benefits and tax credits by 1 per cent in each of the next three years, while protecting the most vulnerable, as announced at Autumn Statement 2012. This

³⁴ *Swift and Sure Justice: The Government's Plans for Reform of the Criminal Justice System*, MoJ, July 2012.

³⁵ Based on HM Treasury analysis of historic public expenditure.

measure recognises that benefits have risen faster than average earnings in recent years and will reduce spending by £3 billion in 2015-16;

- a number of measures that have reduced the £24 billion cost of Housing Benefit, while increasing fairness and efficiency in the system;
- the initial rollout of Universal Credit, the biggest change to the welfare system in a generation which will ensure that it always pays to be in work; and
- the phased introduction of Personal Independence Payments to replace working-age Disability Living Allowance, which will ensure a more accurate assessment of needs so that support reaches those who need it most. This will save £1.2 billion in 2015-16.

1.40 In 2010 the Government announced welfare savings worth £18 billion in 2014-15, and at Autumn Statement 2012, announced a further £3.6 billion savings in 2015-16. 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.

1.41 For these welfare reforms to be effective, the right support must be in place so that those out of work can take advantage of a simpler benefit system.

Supporting people into work

1.42 The Government's employment regime supports the majority of claimants off Jobseeker's Allowance (JSA) within 13 weeks, and over 85 per cent of claimants off benefits in 12 months, providing quality support to those who need it and value for money for the tax payer.³⁶ Building on this regime, the Spending Round announces a significant reform package that increases the requirements placed upon claimants by:

- **introducing upfront work search.** This will require all claimants to do more right from the start of their claim, including the period before they become eligible for financial support. At their first application for benefits, claimants will be asked to write a CV, register with the Government's new Universal Jobmatch service, and start looking for work. Claimants will have longer initial interviews with Jobcentre advisors to support this. This is one part of a 'work first' approach to welfare, and reflects successful reforms in other countries that have asked more of claimants at the start of their claim;
- **providing more support for those who need it** by introducing weekly rather than fortnightly visits to Jobcentres. Jobseekers will get more time with jobcentre advisors at the start of their claim and a proper in-depth progress review every three months.
- **requiring all unemployed claimants, and those earning less than the Government expects them to, to wait seven days before becoming eligible for financial support.** This extends the current three-day waiting period for JSA claimants. This is another part of the 'work first' approach, sending the message from the very start that rights to benefits are conditional on the requirement to search for work. This is in line with international best practice. To recognise their contributions, the extended waiting period will not apply to people claiming contributory JSA or the Employment and Support Allowance (ESA);
- **requiring all claimants who are subject to conditionality to verify their claim each year** – supporting this Government's efforts to reduce fraud and error in the benefits system; and

³⁶ Based on DWP analysis of Jobcentre Plus administration data.

- **requiring all claimants whose poor spoken English is a barrier to work to improve their English language skills**, with claimants mandated to attend English language courses and sanctions for those who refuse to participate.

1.43 The Spending Round also increases support and conditionality for those furthest from the labour market by:

- **requiring lone parents who are not working to prepare for work once their youngest child turns three.** With free nursery education now available for all three-and four-year olds, lone parents will be required to prepare for work once their youngest child is three. This will involve regularly attending their Jobcentre, gaining qualifications and taking other steps to improve their readiness to work. However, there will be no requirement to return to work until their youngest child is five; and
- **testing different approaches to helping ESA claimants in the Work Related Activity Group to move closer to the labour market**, including engagement with healthcare professionals.

1.44 Together these reforms will deliver over £350 million in annual savings. All these savings will be re-invested in more help for claimants to get back into work, including the cost of the new conditions Jobcentres will be asked to enforce. There will be a phased introduction of these policies from April 2014, with full implementation by April 2015.

Welfare cap

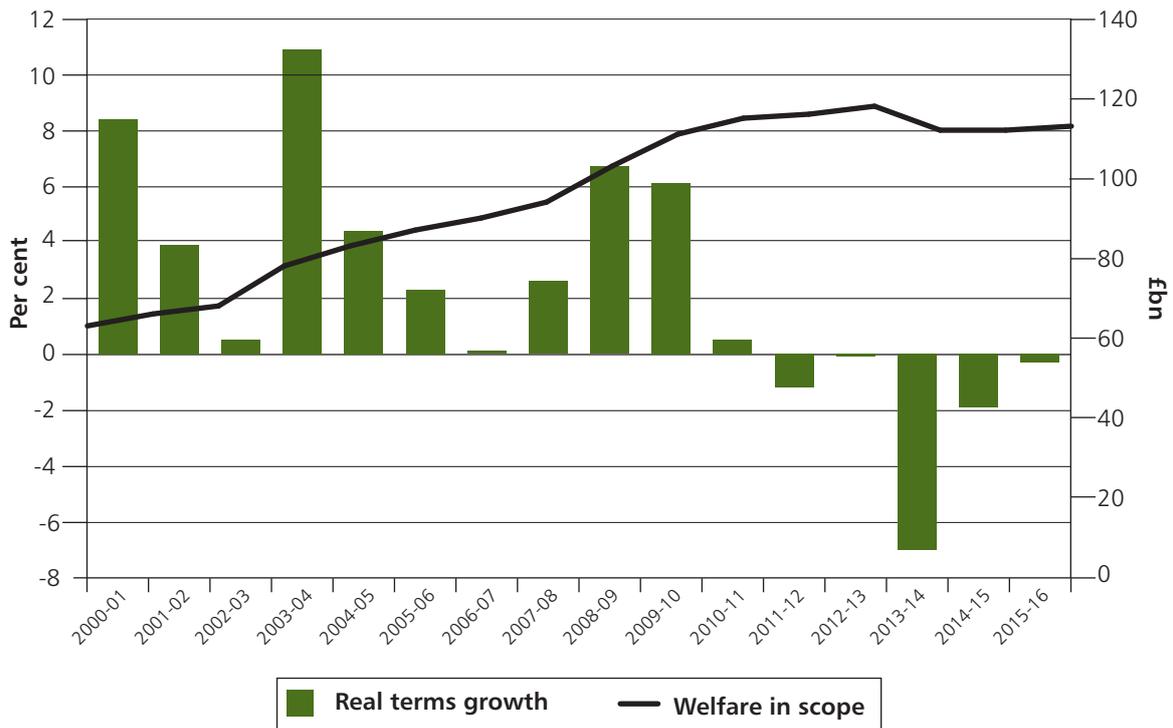
1.45 Since 2010, the Government has taken action to improve its control over key items of public spending in AME, including introducing the new control framework for Department of Energy and Climate Control (DECC) levy-funded spending; reforming public service pensions so that they remain affordable for the country; and introducing a new framework to consider future changes to the State Pension age in a more regular and structured manner.

1.46 The Spending Round announces that **the Government will, for the first time, introduce a cap on the country's welfare spending.** The cap will improve spending control, support fiscal consolidation, and ensure that the welfare system remains affordable.

1.47 The cap will apply to over £100 billion of welfare spending. The basic and additional state pension will be excluded as pension spending is better controlled over a longer time period, for example through an increase in the State Pension Age. In addition, the cap will take account of the automatic stabilisers by excluding the most counter-cyclical elements of welfare, such as 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 AME in the cap.

1.48 Chart 1.4 shows how welfare spending excluding the state pension, JSA and spending passported from JSA has changed since 2000. Between 2000 and 2010, real-terms spending increased by over 45 per cent. The Government has taken significant action to bring welfare costs under control since 2010, and the cap will provide a new tool to ensure that spending remains on this affordable footing. This framework will bring the UK in line with spending control in countries including the Netherlands, Finland and Sweden, which all impose ceilings on social security spending.

Chart 1.4: Welfare excluding the State Pension and Jobseeker's Allowance



Source: HM Treasury and DWP benefit expenditure tables

1.49 The purpose of the welfare cap is to protect against medium-term, structural deterioration in welfare. As such, there will be a margin above the cap to ensure policy action is not triggered by small fluctuations in the forecast. Subject to this, the cap will act as a binding constraint on policy. The independent OBR will judge the Government's performance against the cap and the Government will take steps to enshrine this new framework in law.

1.50 A nominal cap will be set from 2015-16, supporting the delivery of fiscal consolidation during the Spending Round period and beyond. It will be set over the five-year forecast period, starting in the second fiscal year from the date of the forecast to allow time for policy changes to be developed and take effect if necessary. The Government will set the cap at Budget 2014 alongside the OBR's fiscal forecast. In advance, the Government will also publish further technical details.

Efficiency

1.51 By 2014-15, departments will be saving £20 billion a year compared to 2010, through a programme of collective action to drive efficiencies and reduce wasteful expenditure. At the beginning of 2013 the size of the civil service had reduced by 73,000, contributing to workforce savings of £2.2 billion^{37,38}.

1.52 The Spending Round announces that **Government departments, working with the Treasury and Efficiency and Reform Group in the Cabinet Office, have identified over £5 billion further efficiency savings in 2015-16.** These will be delivered by transforming transactional services, reducing the running costs of Government and tackling fraud, error and debt.

1.53 Departmental administration budgets will be reduced by a further £1.9 billion in 2015-16, a total reduction of around 40 per cent since 2010. Some departments have gone further: the Home Office, Department for Education and Department for Work and Pensions will each have halved their back-office spend by 2015-16.

1.54 Central government will save around £1 billion in 2015-16 by centralising the purchase of common goods and services through the Government Procurement Service, negotiating better deals with suppliers and making better use of IT. The Government will also accelerate progress towards using digital technology as its principal channel for doing business (digital by default) and adopt new commercial models for service delivery, saving £800 million.

1.55 A Review of Projects was announced at Autumn Statement 2012, which required all departments to scrutinise their projects portfolio to ensure that taxpayers' money was being spent effectively. This Spending Round announces that **the Review of Projects will save over £1.5 billion in 2015-16** by scaling back spend on lower priority projects and reducing the costs of delivery. £300 million will be saved from government construction projects in 2015-16 by benchmarking construction costs and reducing them to best practice levels.

1.56 Working with local areas, NHS England will lead further work on efficiency savings from 2015-16 to meet rising demand from an ageing population. As a first step, the Department of Health will publish plans in the summer for an overhaul of NHS procurement that could save up to £1 billion.

1.57 The Government's review of efficiency in schools, published alongside the Spending Round, demonstrates significant scope for many schools to get better outcomes from their funding. For example, spending on back office costs ranges from £202 to £1,432 per pupil in secondary schools, and £144 to £1,392 per pupil in primary schools, showing significant variance across the sector.³⁹ The review sets out a range of measures to support school-level financial efficiency, including improved benchmarking data on schools' spending to help all schools to be as efficient as the most efficient.

Public sector pay reform

1.58 Despite pay restraint across the public sector since 2010, average public sector pay growth has continued to exceed that in the private sector.⁴⁰ A key driver of this is progression pay, with some employees enjoying automatic annual pay increases of up to 7 per cent. This is unfair to those public sector employees who have seen their pay awards frozen, or restricted to one per cent, and unfair to the many private sector workers who have seen no or low pay growth.

³⁷ *Statistical Bulletin: Public Sector Employment Q1 2013*, ONS, June 2013.

³⁸ *Efficiency and Reform 2012/13 summary report*, Cabinet Office, June 2013.

³⁹ *2011-12 Consistent Financial Reporting Data*, DfE, 2012.

⁴⁰ HM Treasury analysis of Average Weekly Earnings in the *ONS Labour Market and Statistics Release*, available at www.ons.gov.uk.

1.59 Budget 2013 announced that public sector pay awards in 2015-16 would be limited to an average of up to 1 per cent, saving at least £1.3 billion. The Spending Round announces **further action to ensure that public sector workers do not receive an automatic pay increase purely as a result of time in post.** Departments will put in place plans to end automatic time-served progression pay in the civil service by 2015-16. Automatic progression for teachers will be abolished. Uplifts for prison officers will become non-contractual and subject to performance assessments. The police have been subject to a two-year progression freeze. Most health staff will be subject to local performance standards which will link progression pay more closely to performance, not time served, and the Government will seek further reforms.

Box 1.A: Efficiency savings in action

Delivering efficiency savings is a priority across the public sector, as illustrated by the following examples.

- The Ministry of Defence (MoD) will save approximately £1 billion in 2015-16, including around £750 million from contract renegotiations that will secure better commercial terms from key suppliers, and by reducing construction costs across the defence estate.
- Reform of the criminal justice system, reduced bureaucracy and improved digital working across police forces will deliver at least £100 million of savings in 2015-16. New technologies used by the frontline will enable police officers to access and input information while they are out and about, with real-time crime intelligence influencing when and where they patrol.
- The Ministry of Justice (MoJ) will save £180 million by 2015-16 by reducing operating costs of public sector prisons in line with benchmarks set through a competitive tender with the private sector.
- The Government has already saved £42 million by replacing Directgov and Business Link with the award-winning GOV.UK website. GOV.UK brings together information for the public and businesses on government operations covering 1.3 billion transactions across 600 government services. This will continue to deliver annual savings of at least £50 million.¹
- The Cabinet Office is working with government departments to establish centres to manage back office processes including payroll management, IT services and payments to suppliers. These will enable departments to focus their resources on the delivery of public services. They will reduce the cost per user by 30 per cent and contribute to overall shared services savings of £250 million in 2015-16.
- The Tri-borough is a combined venture between three councils: Westminster, Hammersmith and Fulham, and The Royal Borough of Kensington and Chelsea. The councils began sharing services in April 2012, starting with libraries, adult social care and children's services. The programme saved almost £10 million in its first year and is on track to achieve its target of £40 million annual savings from 2015-16.²
- The One HMG Team Overseas project will bring together the Foreign and Commonwealth Office (FCO), Department for International Development (DFID) and MOD operational and transactional services, and save £5 million in 2015-16. For example, DfID staff will move into new offices at the British Embassy in Kathmandu and the British High Commission in Delhi, and over three quarters of Visit Britain staff are now located in FCO buildings.

¹ *Efficiency and Reform: 2012/13 summary report*, Cabinet Office, June 2013.

² *Tri-Borough one year on: Delivering our promise to improve lives and make public funds go further*, London Borough of Hammersmith and Fulham, Royal Borough of Kensington and Chelsea, and Westminster City Council, June 2012.

Fairness

1.60 The Government remains committed to the promotion of a society in which there is high social mobility; the vulnerable people are looked after; everyone makes a fair contribution in tax and takes their fair share in benefits; and those with the broadest shoulders continue to make the biggest contribution to fiscal consolidation.

1.61 The Government took a firm decision in 2010 to face the financial problems it inherited today rather than putting them off until tomorrow. The tough choices taken in this Spending Round will enable the Government to continue to reduce the deficit and avoid burdening future generations with today's debt. Without action now, there will be less money in the future to deliver the services that people rely upon.

1.62 The Government **will continue to protect funding for health and schools in real terms in 2015-16**. These essential universal services, free at the point of delivery and accessible to all, are of vital importance to the promotion of social mobility and protection of the most vulnerable people, so the Government believes it is right that they should be prioritised even while spending is reduced elsewhere. These protections will:

- enable the NHS to maintain its quality of service, treating 90 per cent of inpatients and 95 per cent of outpatients within 18 weeks. This will benefit everyone, particularly individuals from groups who make substantial use of health services, including women, older people and people with a disability. The Government is building on around £1 billion of existing NHS support by providing an additional £2 billion through the NHS in 2015-16 to be used jointly by local health and social care services. This will help to ensure that health and social care services are well integrated and built around the service user, so older and disabled people do not need to have many separate assessments or explain their problems afresh each time they meet a new professional; and
- enable schools to continue to improve outcomes for all children and young people. The real terms protection of the Pupil Premium, which provides extra funding for disadvantaged pupils, will support schools to continue to close the gap in attainment between children from higher- and lower-income households, promoting social mobility.

1.63 As a result of its choices on both tax and spending, the Government has continued to ensure that **the top 20 per cent of households will make the greatest contribution to reducing the deficit**. The Government publishes regular distributional analysis of the impact of its reforms, and has done so again for this Spending Round in *Impact on households: distributional analysis of Spending Round 2013*, published alongside the Spending Round.

1.64 As part of its action to ensure that everyone makes a fair contribution, the Government will **increase HMRC's target for raising additional revenues, including from tackling tax avoidance and evasion, to £24.5 billion in 2015-16**, £1 billion more than in 2014-15 and £10 billion more than in 2010-11.

1.65 The Government is also taking further steps to help families with the cost of living. The Spending Round announces that the Government will:

- **make funding available to support local authorities that choose to freeze their council tax in 2014-15 and 2015-16**, and plans 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;
- **consult in July on the details of the new scheme of Tax-Free Childcare announced at Budget 2013**. From autumn 2015, this will support working families with the costs of childcare and help ensure that parents who want to work can do so. This support is in

addition to free early education. The entitlement to 15 hours a week of free early education for all three- and four-year olds will continue. It will be extended to the 20 per cent most disadvantaged two year olds in September 2013 and to around 40 per cent in 2014-15; and

- **continue the Warm Home Discount in 2015-16.** It will provide £320 million for discounts on electricity bills for some of the least well-off pensioners and other vulnerable households.

1.66 The Government remains committed to increasing fairness for the people across the world whose economies are most in need of development, not least because building stability overseas will ensure that this country can continue to prosper. The Spending Round therefore **maintains spending on official development assistance at 0.7 per cent of the UK's Gross National Income (GNI).**

1.67 The Government has made choices, at a time of spending restraint, which **target resources on the needs of people with disabilities.** The decisions on funding for health services and social care will benefit many people with disabilities. A commitment to ensure that more adults and young people have access to clinically proven psychological therapies, and that every accident and emergency department will have constant access to mental health professionals will ensure that people with mental health problems, including those with disabilities, get the best possible care. In the schools system, the continuation of the Pupil Premium in real terms will disproportionately benefit children and young people with disabilities, and the Government will continue to reform services for those with special educational needs. The Department for Work and Pensions settlement includes funding for supporting disabled people to find work through specialist programmes and wider support.

1.68 The Spending Round announces that **from 2015-16 Winter Fuel Payments will no longer be payable to individuals who live in countries with an average winter temperature higher than the warmest region of the UK.** Winter fuel payments exist to support pensioners with the cost of heating their homes in the winter. A recent European Court judgement means that more people living in Europe can now claim a Winter Fuel Payment. This has increased the cost of paying Winter Fuel Payments outside of the UK by around £30 million a year. The Government will legislate for this change in this Parliament. This change is expected broadly to offset the cost of the European Court judgement, and a full costing will be confirmed at the Autumn Statement.

Box 1.B: Impact on equalities

The Spending Round reflects the Government's commitment to equalities and to the promotion of social mobility.

The Government is required by the Public Sector Equality Duty to pay due regard to the impacts of its decisions on those sharing certain 'protected characteristics'. Equalities impacts have been considered at every stage of the Spending Round process.

Although almost all changes to public spending have some equalities impacts, changes to welfare, health and education spending have particularly high impacts. The groups facing the most significant impacts as a result of decisions taken in the Spending Round are those distinguished by gender, race, age and disability.

Spending Round decisions which particularly demonstrate the Government's commitment to equalities include:

- increasing health spending in real terms, which will particularly benefit women (including those using pregnancy and maternity services), older people and those with a disability;
- an additional £2 billion from the NHS for local health and social care services, building on the transfer to local authorities over the 2010 Spending Round period, which will support local authorities to maintain access to adult social care, and so benefit the disabled and older people (including many older women);
- further investment in mental health services – so that more adults and young people have access to clinically proven psychological therapies, and every accident and emergency department will have constant access to mental health professionals to ensure people with mental health problems get the best possible care. This will benefit people with mental health problems, including those with disabilities;
- with the longer term in mind, investment of £335 million in 2015-16 to help local authorities prepare for reforms to social care funding, including the introduction of a cap on care costs, which will benefit older people (especially older women) and disabled people;
- protecting the schools budget, including the Pupil Premium, in real terms, which will improve the life chances of all children and young people. The Pupil Premium will continue to provide extra funding for the most disadvantaged pupils, who are disproportionately from ethnic minorities or have disabilities; and
- investment by UK Sport of over £70 million of Exchequer and Lottery funding in Paralympic sports in the run up to Rio 2016 – an increase of over 40 per cent on the funding available to Paralympic athletes for London 2012. This will build on the positive public image of disabled people established by the London 2012 Games.

Further information is contained in *Impact on equalities: analysis to accompany Spending Round 2013*, published alongside Spending Round 2013.

2

Departmental Settlements

Department for Education

Table 2.1: Department for Education

| | £ billion | |
|---------------------------|-------------|-------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 52.8 | 53.2 |
| Capital DEL | 4.6 | 4.6 |
| Total DEL | 57.3 | 57.7 |

¹ In this table, Resource DEL excludes depreciation.

2.1 The Department for Education (DfE) settlement includes:

- **real terms protection of the schools budget. This will ensure that schools have the resources they need to continue to raise standards for all children and young people;**
- **real terms protection of the Pupil Premium and a commitment to consult on how to introduce a fair national funding formula for schools in 2015-16, ensuring that funding gets to the schools and pupils that need it most;**
- **support for the next stage of schools reform to free up the system and increase choice, including continued roll out of academies and funding for up to 180 new Free Schools, 20 new Studio Schools and 20 new University Technical Colleges a year; and**
- **savings through reductions to the Department's centrally held programme budgets and administration budget.**

Service Reform

2.2 The Government will 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 pupils are disadvantaged.

2.3 The Government will continue to fund the growth of the academies programme, allowing more schools to benefit from greater freedoms. As the programme matures, the Government will work to drive down the central costs of the programme, delivering savings of around £150 million in 2015-16.

2.4 In line with the changing nature of the schools system, the Government will reduce central education support by reducing the Education Services Grant by around £200 million in 2015-16. The Department will consult in the autumn on the detail of how the reductions will be implemented through realising efficiencies and enabling local authorities to focus on their core role on schools.

2.5 The Government will continue to reform the 16-19 and early education sectors, including implementation of the funding reforms recommended by Doug Richard and Alison Wolf, while requiring these sectors to be more efficient.^{1,2}

Efficiency

2.6 The Government's review of efficiency in schools, published alongside this Spending Round, shows that there is significant scope for many schools to make their money go further. For example, spending on back office costs range from £202 to £1,432 per pupil in secondary schools, and £144 to £1,392 per pupil in primary schools, showing significant variance across the sector.³ The review sets out measures to support school-level financial efficiency, including improved benchmarking data on school spending. The Department will also continue to make savings in its own administrative spending, saving a further £33 million in 2015-16, taking the overall reduction to 50 per cent since 2010-11.

Fairness

2.7 The Spending Round includes real terms protection for the schools budget for reception to year 11, ensuring schools will be able to continue to improve outcomes for all children and young people. Real terms protection of the Pupil Premium, which provides extra funding for disadvantaged pupils, will enable schools to continue to close the gap in attainment between children from higher- and lower-income households, promoting social mobility and equality of opportunity.

2.8 To give children the best start in life, the settlement maintains 15 hours a week of free early education for all three- and four-year olds. The entitlement will be extended to the 20 per cent most disadvantaged two-year olds in September 2013, and to around 40 per cent in 2014-15.

Department of Health

Table 2.2: Department of Health

| | £ billion | |
|---------------------------|--------------|--------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 108.3 | 110.4 |
| Capital DEL | 4.6 | 4.7 |
| Total DEL | 113.0 | 115.1 |

¹ In this table, Resource DEL excludes depreciation.

2.9 The Department of Health (DH) settlement includes:

- **real terms growth in overall NHS funding, continuing the Government's commitment to protect health spending;**⁴
- **building on support for social care in the current Spending Review period, an additional £2 billion a year through the NHS to join up local health and social care services to deliver better, more efficient care, with a £3.8 billion pooled budget to be shared between local health and care systems. An extra £200 million will be made available in 2014-15 to accelerate this transformation; and**
- **greater resources for frontline services as a result of 10 per cent real term cuts to administration budgets and plans for up to £1 billion savings from an overhaul of NHS procurement.**

¹ *The Richard Review of Apprenticeships*, Doug Richard, November 2012.

² *Review of Vocational Education – the Wolf Report*, Alison Wolf, March 2011.

³ *2011-12 Consistent Financial Reporting Data*, Department for Education, 2012.

⁴ *Department of Health Annual Report and Accounts 2011-12*, available at www.gov.uk.

Fairness

2.10 The health settlement provides for 0.1 per cent real terms growth in 2015-16, meeting the Government's commitment to increase health spending in real terms. This ensures that the Government will continue to support those groups, including women, people with disabilities and the elderly, who make greater use of health services. The Government is also committed to ensuring that the NHS treats mental health as seriously as physical health, so in 2015-16 the NHS will expand access to talking therapies and improve its response to mental health crises.

2.11 Social care helps people live independently and supports some of the most vulnerable people in society. The Government is therefore providing an additional £2 billion through the NHS to be used by local health and care systems, building on the transfer to local authorities for social care over the Spending Review 2010 period which will reach around £1 billion by 2014-15. This settlement provides local health and care services with sufficient resources to support integrated working and maintain access to services. This is underpinned by a new national minimum eligibility threshold for social care, set at the level operated by the vast majority of local authorities in the current system. This maintains, and in some places widens, eligibility, and provides clear assurance on the minimum levels of service individuals can expect.

Service Reform

2.12 The NHS will need to continue to increase productivity and make substantial efficiency savings to deal with rising demand and cost pressures. Through the Quality, Innovation, Prevention and Productivity (QIPP) efficiency programme, it is on course to deliver up to £20 billion of savings by 2015. Working with local areas, NHS England will now lead further work, which is expected to focus on areas such as better procurement, making savings through improved use of technology, and reducing pressures on A&E by providing good alternatives and more support to older people and people with multiple long-term conditions.

2.13 To improve outcomes for the public, provide better value for money, and be more sustainable, health and social care services must work together to meet individuals' needs. The Government will introduce a £3.8 billion pooled budget for health and social care services, shared between the NHS and local authorities, to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people. The NHS will make available a further £200 million in 2014-15 to accelerate this transformation. From 2015-16 the shared pool will include existing NHS funding for social care and the additional £2 billion set out above, alongside further funds for carers and people leaving hospital who need support to regain their independence. It also includes £350 million of capital funding which will be available for projects to improve integration locally, including IT funding to facilitate secure sharing of patient data between the NHS and local authorities, and to improve facilities for disabled people.

Department for Transport

Table 2.3: Department for Transport

| | £ billion | |
|---------------------------|-------------|-------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 3.5 | 3.2 |
| Capital DEL | 8.9 | 9.5 |
| Total DEL | 12.3 | 12.7 |

¹ In this table, Resource DEL excludes depreciation.

2.14 The Department for Transport (DfT) settlement includes:

- a 5.5 per cent real terms increase in capital provision for critical transport infrastructure; and
- a 9.3 per cent reduction in resource expenditure through an increased focus on efficiency savings.

Growth

2.15 As part of the settlement, the Government is setting long-term capital budgets for national roads, local roads, Transport for London and High Speed 2. Further details will be set out in *Investing in Britain's Future*.

Efficiency

2.16 Efficiency savings have been identified by Transport for London and within rail budgets. The long-term funding certainty provided to the Highways Agency and Transport for London will generate significant efficiency savings in budgets beyond 2015-16. These savings ensure the Government is able to protect spending on buses and roads and avoid additional rail fare increases – helping those on lower incomes.

Department for Communities and Local Government

Table 2.4: Department for Communities and Local Government

| | £ billion | |
|---------------------------|------------|------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 1.2 | 1.1 |
| Capital DEL | 4.8 | 3.1 |
| Total DEL | 6.0 | 4.3 |

¹ In this table, Resource DEL excludes depreciation.

2.17 The Department for Communities and Local Government (DCLG) settlement includes:

- a £45 million capital fund for the Fire and Rescue Service alongside a £30 million resource fund from the local government settlement to encourage greater collaboration between the Fire Service and other emergency services; and
- £126 million savings from reductions in the Department's resource budget and further efficiencies through a 10 per cent reduction in the administration budget, including a move to share accommodation with the Home Office in 2015-16.

Growth

2.18 The Government is committing to a significant package of capital spending on housing. The Government will set out its approach to affordable housing in *Investing in Britain's Future*.

This will include giving certainty that social rents will increase by CPI plus 1 per cent a year from 2015-16 to 2024-25.

Reform

2.19 The Government is relatively protecting fire and rescue authorities by applying a 7.5 per cent reduction to their budgets overall. The Knight Review made a strong case for the opportunities for further reform within the Fire and Rescue Service.⁵ Therefore the Government is creating:

- a £45 million Fire Efficiency Incentive Fund to invest capital in ensuring that fire service assets such as fire stations are appropriately located to ensure efficient and effective service delivery; and
- a £30 million resource fund through the local government settlement to encourage joint working between fire and rescue authorities, collaboration with other blue lights services, and to meet the upfront costs of service transformation.

Local Government

Table 2.5: Local Government¹

| | £ billion | |
|--|-----------|---------|
| | 2014-15 | 2015-16 |
| Resource DEL ² | 25.6 | 23.5 |
| Local Government Spending ³ | 54.8 | 54.5 |

¹ Local Government has no Capital DEL, however local authorities receive capital grants from other government departments and have the flexibility to raise capital locally (e.g. through Prudential Borrowing).

² In this table, Resource DEL includes the OBR's forecast for localised business rates that local authorities can now retain following changes to the local government finance system, but does not yet include the council tax freeze measures announced as part of the Spending Round, and excludes depreciation.

³ Local Government Spending includes central government grants to local authorities (including Revenue Support Grant) plus the OBR's forecast of council tax and the local share of business rates, and is a measure of resources available for council services. Values are based on indicative allocations from departments.

2.20 The Local Government (LG) settlement includes:

- **£3.8 billion of pooled funding between the NHS and local authorities to support and reward the delivery of integrated services and better, more efficient care;**
- **making funding available, in addition to the settlement, in 2014-15 and 2015-16 for local authorities who choose to freeze their council tax;**
- **£330 million to support transformation of local services including a £200 million extension of the Troubled Families programme and a £100 million collaboration and efficiency fund to enable the re-engineering of service delivery and the realisation of efficiencies; and**
- **a reduction in overall local government spending of 2.3 per cent.**

Service Reform

2.21 The recent Whole Place Community Budget pilots have demonstrated local areas' ability to transform services to reduce demand on services and costs. The pilot areas have shown the potential to join up local authorities and other local public services for improved health and social care integration, children's services and criminal justice systems, and improved working with troubled families that have complex needs. A key objective for this Spending Round is better cooperation between services at local level.

⁵ Facing the Future: Findings from the review of efficiencies and operations in fire and rescue authorities in England, Sir Ken Knight, May 2013.

2.22 The Government is providing £3.8 billion, pooled between the NHS and local authorities, to support and reward integrated working in 2015-16, following the example of the Whole Place Community Budget pilots. The Government will also ensure that both local government and Clinical Commissioning Groups are given their funding allocations further in advance and are working towards the same outcomes, to encourage local services to work together.

2.23 DfE and DCLG will work with local government to examine the scope to improve outcomes, reduce burdens and drive efficiency in children's services, and report back on progress in the autumn. In addition, the Government will provide a £100 million collaboration and efficiency fund to help local authorities to cover the upfront costs of working with each other and encourage better ways of operating. £200 million will also be made available to extend the Troubled Families programme. Further details are set out in Box 2.A.

Fairness

2.24 This settlement supports those local authorities who have kept council tax down since 2011-12 by continuing to provide for previous council tax freeze grants in their 2015-16 settlement. This is worth £833 million to local authorities. The Government will also make funding available in 2014-15 and 2015-16 for local authorities who choose to freeze their council tax, and plans to set the council tax referendum threshold at 2 per cent for 2014-15 and 2015-16.

2.25 The Government will make available £335 million in 2015-16 so that councils can prepare for reforms to the system of social care funding, including the introduction of a cap on people's care costs from April 2016 and a universal offer of deferred payment agreements from April 2015. This will mean that no-one will be forced to sell their home in their lifetime to pay for residential care. Local government has also been fully funded for the costs arising from the closure of the Independent Living Fund, as the support offered by the fund becomes part of the social care system.

2.26 The Government will consult on the local government finance settlement for 2015-16 in the normal way, recognising that some local authorities are more dependent on central government funding than others.

Box 2.A: Extending the Troubled Families programme

The Government is committed to working with local authorities and their partners to help 120,000 troubled families in England turn their lives around by 2015, giving the children in these families a better life and reducing the high costs to the public sector that result from anti-social behaviour, worklessness, A&E visits, police call outs and truancy. This year, for the second year running, the Troubled Families programme was voted the most highly rated government programme by local authority CEOs.

Following the success of the programme, the Government will provide a further £200 million in 2015-16 to expand this work to 400,000 families that may require assistance with multiple problems. At present, an estimated 84 per cent of public spending on these families is reactive, with only 16 per cent invested to try to improve their lives.

The aim of the extended programme will be to reduce this reactive cost to the public purse and add momentum to the reform of uncoordinated services for families. The Government will pay local areas by results for real improvements to families' lives and for demonstrable savings to the public purse.

Funding for the extended programme, led by DCLG, in 2015-16 will be drawn from across government.

Department for Business, Innovation and Skills

Table 2.6: Department for Business, Innovation and Skills

| | £ billion | |
|------------------------------------|-------------|-------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 13.6 | 13.0 |
| Capital DEL | 2.1 | 2.5 |
| Total DEL | 15.7 | 15.5 |
| Memo: | | |
| Green Investment Bank ² | 0.0 | 1.3 |

¹ In this table, Resource DEL excludes depreciation.
² Although excluded from these figures for comparison purposes this will form part of BIS' CDEL control total in 2015-16.

2.27 The Department for Business, Innovation and Skills (BIS) settlement includes:

- **£2.5 billion of capital funding, including £2.2 billion for capital spending and £300 million for financial transactions in 2015-16. To help provide long-term certainty, the Government has agreed a capital budget of £2.2 billion in 2016-17, excluding financial transactions;**
- **£4.6 billion to maintain resource funding on science in cash terms and £1.1 billion to maintain capital spending on science in real terms; and**
- **£185 million of additional resource funding for the Technology Strategy Board (TSB) to support innovation, including Catapult Centres and the Biomedical Catalyst.**

Growth

2.28 The Government is committed to ensuring that the UK remains a world leader in science and research, and will maintain resource funding for science in cash terms at £4.6 billion in 2015-16. It will increase capital funding in real terms from £0.6 billion in 2012-13 to £1.1 billion in 2015-16, and in line with inflation to 2016-17. Furthermore, the Government will extend the Research Partnership Investment Fund (RPIF) to 2016-17, making available £160 million per year of match funding to leverage private funding for scientific infrastructure. The TSB will receive an additional £185 million in resource funding to support innovation. As announced at Budget 2013, the Government is also providing long-term sector support through a £1.6 billion industry-matched fund as part of its Industrial Strategy.

2.29 The Government has already delivered more than one million apprenticeship starts in this Parliament. This settlement maintains spending on apprenticeships for those aged 19 or above, which will continue to allow individuals to develop skills for the future and help businesses to secure employees with the skills they need. The Government will consult on major reform of apprenticeship funding this summer to ensure purchasing power is held in the hands of employers. The consultation will consider options to make payments to employers including reform of BIS' delivery systems and use of Her Majesty's Revenue & Customs' (HMRC) Pay As You Earn system. The Government is committed to raising the quality of apprenticeships and to implementing key reforms in the Richard Review.⁶

2.30 The Government's traineeships programme will be extended to 19-24 year olds, to help support young people to make the transition from education into work.

Service Reform

2.31 The decision taken at Spending Review 2010 to reform higher education (HE) and further education (FE) funding continues to place both sectors on a more sustainable financial footing. The reforms will provide a better balance of funding between the state and the individuals who

⁶ *The Richard Review of Apprenticeships*, Doug Richard, November 2012.

benefit from the education and training they receive, allowing the Government to reduce spending by £400 million in 2015-16.

2.32 The Government will refocus the National Scholarship Programme to support postgraduate students from disadvantaged backgrounds. The £50 million fund will be administered by the Higher Education Funding Council for England (HEFCE). HEFCE will allocate the money competitively to higher education institutions, and will attract additional scholarship funding from the private sector or from the institutions' own resources.

2.33 In higher education, student maintenance grants will be maintained in cash terms in the 2015-16 academic year saving £60 million. At least £45 million will be saved through asking HEFCE to reprioritise teaching grant spend. In further education at least £260 million savings will be made by prioritising higher value qualifications, and reducing non-participation spending.

2.34 BIS will continue to maintain spending on economic growth by reducing spending on administration by a further £50 million in 2015-16.

Home Office

Table 2.7: Home Office

| | £ billion | |
|---------------------------|-------------|-------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 10.4 | 9.9 |
| Capital DEL | 0.5 | 0.4 |
| Total DEL | 10.8 | 10.3 |

¹ In this table, Resource DEL excludes depreciation.

2.35 The Home Office settlement includes:

- **maintaining funding for the police counter-terrorism budget, to protect the UK from the ongoing threat posed by terrorism;**
- **increasing efficiency through greater collaboration across and beyond the police which will enable police forces to focus on cutting crime and protecting the public;**
- **funding to manage immigration and ensure the UK's borders remain safe and secure, while taking tough choices to drive out inefficiency within borders and immigration operations, and to improve the service to customers; and**
- **total reductions of 50 per cent to administration budgets compared to 2010-11 levels.**

Efficiency

2.36 Police and Crime Commissioners will drive considerable further savings through improving procurement and collaboration across operational areas and support services, on top of the progress already made over this Spending Review period.

2.37 An innovation fund of up to £50 million will be created for police forces to work jointly with each other and local authorities. This will enable Police and Crime Commissioners to invest in innovative approaches to improve policing and deliver further efficiencies in the future.

2.38 The Home Office will work with other departments to drive efficiencies in the Criminal Justice System (CJS). More details are set out in Box 2.B.

Service Reform

2.39 The Government will generate savings from restructuring and transforming its borders and immigration operations, in light of the split of the UK Border Agency (UKBA). Greater oversight and accountability of these operations in the Home Office will lead to better service standards for visitors and businesses, while managing immigration and ensuring the UK's borders remain secure.

2.40 The Government will deliver further improvements to its visa and nationality application process to ensure that the UK continues to attract migrants and visitors who make a valued contribution to the UK economy. Migration fees will continue to be set above the cost of processing applications, ensuring that those visiting and working in the UK pay a contribution to managing immigration and the UK's borders.

Box 2.B: Criminal Justice System reform

The Government will publish a cross-Criminal Justice System (CJS) action plan shortly. The Ministry of Justice, Home Office, police and Crown Prosecution Service (CPS) will work closely together to implement changes that will drive substantial efficiencies across the system. This will improve the experience of justice for victims and witnesses by speeding up the resolution of cases, freeing up court time for more serious cases, and introducing greater transparency. Measures will include:

- creating a fully integrated CJS, based around a common digital platform from police station to court room;
- transferring high volume, low level motoring offences to special traffic courts;
- ensuring the police and CPS do more to identify cases where a guilty plea is anticipated and deal with those cases early; and
- publishing case progress data, enabling the public to see how long cases are taking in their local area.

Ministry of Justice

Table 2.8: Ministry of Justice

| | £ billion | |
|---------------------------|------------|------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 6.8 | 6.2 |
| Capital DEL | 0.3 | 0.4 |
| Total DEL | 7.1 | 6.6 |

¹ In this table, Resource DEL excludes depreciation.

2.41 The Ministry of Justice (MoJ) settlement includes:

- **funding to enable the transformation of rehabilitation services to drive down persistently high reoffending rates;**
- **a £200 million saving in the cost of the courts to the taxpayer by 2015-16;**
- **a £180 million reduction in the cost of prisons run by the public sector by 2015-16; and**
- **proposals to reform the legal aid system, which would deliver savings rising to £220 million a year.**

Service Reform

2.42 The MoJ settlement includes funding to transform prisoner rehabilitation by introducing competition between providers, payment by results, and through extending support to offenders being released from short prison sentences. This will incentivise providers to focus on changing the behaviour of the most persistent and prolific offenders to reduce reoffending and its impact on communities.

2.43 The Government will also take forward measures to improve confidence in the legal aid system and ensure that it is properly targeted, such as by restricting legal aid for non-UK residents.

2.44 The Government will recover more of the costs of criminal court cases and criminal legal aid from those convicted of criminal offences, ensuring that, where possible, someone who commits an offence contributes towards the cost of their case.

Efficiency

2.45 The delivery of court services will be reformed to provide a more efficient service that ensures access to justice quickly and effectively, delivers value for money for the taxpayer, and further enhances the position of the UK in the international legal services market. The cost of public prisons will also be reduced by ensuring that they operate in line with competitive benchmarks. Separately, services and structures will be reviewed across the Ministry of Justice and its Arm's Length Bodies (ALBs) to deliver £130 million of savings in back office and administrative costs.

2.46 The MoJ will work with other departments to implement changes to drive efficiencies in the Criminal Justice System (CJS). More details are set out in Box 2.B.

Law Officers' Departments

Table 2.9: Law Officers' Departments

| | £ billion | |
|---------------------------|------------|------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 0.5 | 0.5 |
| Capital DEL | 0.0 | 0.0 |
| Total DEL | 0.5 | 0.5 |

¹ In this table, Resource DEL excludes depreciation.

2.47 The Law Officers' Departments (LODs) settlement includes:

- **funding for the Departments to continue their core work, with further efficiencies from digital working and reform of the CJS.**

2.48 The settlement for the LODs covers the CPS, Serious Fraud Office, and the Treasury Solicitors Department, including funding for the Attorney General's Office and Her Majesty's Crown Prosecution Inspectorate.

Efficiency

2.49 The CPS represents over 90 per cent of the LODs budget. It will deliver significant additional reform and efficiency in the prosecution of crime through further digital transformation, working with courts to improve case management, and continuing to consolidate into fewer offices. The Law Officers' Departments will work with other UK Government departments to implement changes to drive efficiencies in the CJS.

2.50 This programme of reform will allow the CPS to make savings of 5 per cent in real terms in 2015-16 while continuing to prosecute nearly one million cases a year, adapting to the ever

increasing complexity of digital evidence in criminal investigations, and providing a better service for victims and witnesses.

Ministry of Defence

Table 2.10: Ministry of Defence

| | £ billion | |
|---------------------------|-------------|-------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 23.9 | 23.9 |
| Capital DEL ² | 8.7 | 8.7 |
| Total DEL | 32.7 | 32.6 |

¹ In this table, Resource DEL excludes depreciation.

² This excludes any additional carry forward into the MoD 2014-15 control total as the exact profile is yet to be agreed with MoD and excludes minor baseline adjustments

2.51 The Ministry of Defence (MOD) settlement includes:

- **funding for the Strategic Defence and Security Review commitments in 2015-16, which includes maintaining levels of armed forces personnel, to ensure the UK can protect its interests at home and abroad;**
- **a commitment to 1 per cent real terms annual growth in the Equipment Plan, from a 2015-16 baseline, providing investment in the vital equipment needed to deliver the MOD's Future Force 2020, so that the UK's armed forces continue to be among the best equipped and most technically advanced in the world;**
- **a continued commitment to UK-wide infrastructure investment, including a major programme of investment to support the rebasing of army personnel. This will include significant construction activity to support the return of the remaining 16,000 troops from Germany;**
- **overall savings of approximately £1 billion from MOD plans, which includes around £750 million of contract renegotiations, to drive better commercial terms from key suppliers; and**
- **further support for the Armed Forces Covenant in perpetuity through the provision of funding from LIBOR fines.**

Service Reform

2.52 Ensuring the UK is secure and dealing with threats to its national interest remains a priority for the Government. The defence settlement guarantees that the UK will continue to have one of the largest defence budgets in the world, and remain one of only four NATO members to spend over 2 per cent of GDP on defence.

2.53 The MOD has continued to drive ambitious reforms. These include the creation of a smaller, more professional MOD, and the delegation of authority to military decision makers to determine how best to meet the operational outputs required in the short and long term. This ensures that the UK Armed Forces will continue to be well equipped and have the capabilities to operate in a rapidly changing security environment. This settlement will continue to meet:

- the national security priorities set out in the 2010 Strategic Defence and Security Review;
- a balanced defence budget, including average 1 per cent real terms growth in the Equipment Plan to provide investment that will include the Queen Elizabeth Class Aircraft Carriers and the Joint Strike Fighter, the A400M transport aircraft, an upgraded Warrior armoured vehicle and the Meteor Beyond Visual range Air-to-Air Missile; and

- the delivery of Future Force 2020, providing modern armed forces able to defend Britain's interests in the 21st century.

Efficiency

2.54 In order to achieve this settlement, the MOD has contributed approximately £1 billion of savings to the overall Spending Round. This has been achieved without affecting military manpower numbers. The MOD is also delivering reforms to its equipment acquisition and infrastructure organisations to enhance performance in these crucial areas of MOD business. Further renegotiation of major contracts in defence equipment and commodities; reducing the cost of construction in the defence estate; and reductions to the Department's civilian headcount and allowances will also deliver further efficiencies.

2.55 After the withdrawal from Afghanistan, 2015-16 will be the first year in over a decade that the UK has not been engaged in large scale combat operations, allowing the MOD to focus funding on other key areas of defence. For example, it will improve high-readiness Contingent Forces to ensure the UK has the ability to respond to different or unforeseen threats. This settlement will also allow an estimated £2 billion of military equipment to be brought back from Afghanistan for potential reuse in future military operations, which includes some 1,000 protected mobility vehicles.

Foreign and Commonwealth Office

Table 2.11: Foreign and Commonwealth Office

| | £ billion | |
|---------------------------|------------|------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 1.2 | 1.1 |
| Capital DEL | 0.1 | 0.1 |
| Total DEL | 1.3 | 1.2 |

¹ In this table, Resource DEL excludes depreciation.

2.56 The Foreign and Commonwealth Office (FCO) settlement includes:

- **funding to maintain the size and shape of the diplomatic network of embassies, allowing the Department to continue to support prosperity and growth, particularly in emerging markets;**
- **the implementation of the One HMG Team overseas project, driving efficiencies of up to £5 million by increasing collaboration and sharing of services across government departments that are based overseas;**
- **a review of the operating model of the British Council to encourage greater self funding, reduce the burden on the taxpayer, and promote UK prosperity; and**
- **increased funding of £70 million for work with UKTI to support economic growth, and exploit commercial opportunities. The FCO will work with UKTI and other partners towards the aim of doubling UK exports by 2020.**

Growth

2.57 The Government recognises the importance of a strong FCO, with the ability to defend Britain's interests overseas and bring tangible benefits to the UK economy by helping British companies compete successfully on the world stage. This will build on notable UK Government successes such as the £7.5 billion British Petroleum (BP) deal in Indonesia, supporting BP's 10,000 jobs in the UK, and the £6.3 billion deal for Rolls Royce to supply engines and technical support for 50 new aircraft to Singapore Airlines, supporting more than 20,000 Rolls Royce jobs in the UK.

2.58 The FCO capital settlement allows the Department to maintain its network of embassies and residential properties, particularly those in fast-growing economies. The FCO’s presence in the important markets of West Africa and China will be expanded to help ensure that other government departments such as UKTI can support British companies in these markets, in addition to protecting and promoting wider British interests overseas.

Efficiency

2.59 The FCO will continue to build on the efficiencies achieved during the current Spending Review period through outsourcing and reducing the FCO estate. In 2015-16 the Department will focus on maximising use of its estate by consolidating London-based staff into the Department’s Whitehall base in King Charles Street, and driving savings through the re-procurement of its IT infrastructure.

Box 2.C: Conflict, Stability and Security Fund

The Government will provide more than £1 billion in 2015-16 for a new Conflict, Stability and Security Fund (CSSF). This builds on the success of the Conflict Pool by bringing together existing UK capabilities and resources from across government (including conflict resources worth £683 million in 2014-15) and £100 million of new funding.

The CSSF will fund a broader range of activity to help prevent conflict that affects vulnerable people in the world’s poorest countries, and tackle threats to UK interests from instability overseas. This will include actions the UK delivers directly or through third parties and its contribution to multilateral interventions overseas to help prevent conflict and instability, and support post-conflict stabilisation.

These resources will be used more strategically to deliver better outcomes. Priorities for the Fund will be set by the Government’s National Security Council to ensure a strengthened cross-departmental approach that draws on the most effective combination of defence, diplomacy, development assistance, security and intelligence. This will include funding to ensure the UK can respond quickly to crises. It will also ensure longer term conflict prevention work to tackle the root causes of conflict abroad, such as providing military training and capacity building, human rights training, security and justice sector reform, and facilitating political reconciliation and peace processes.

Department for International Development

Table 2.12: Department for International Development

| | £ billion | |
|---------------------------|-------------|-------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 8.3 | 8.5 |
| Capital DEL | 2.0 | 2.6 |
| Total DEL | 10.3 | 11.1 |

¹ In this table, Resource DEL excludes depreciation.

2.60 The Department for International Development (DFID) settlement includes:

- **the DFID contribution to £12.22 billion of total UK Official Development Assistance (ODA), ensuring the UK Government maintains funding at 0.7 per cent of gross national income (GNI) in 2015, in line with the UK’s international commitments to help the poorest in the world; and**
- **an £809 million increase in the overall DFID budget from 2014-15 and an increase in the DFID ODA budget to £10.6 billion.**

Fairness

2.61 The Government remains committed to supporting those people across the world whose economies are most in need of development. This is in the UK's national interest. Tackling global issues such as economic development, effective governance, climate change, conflict and fragile states provides good value for money.

Table 2.13: UK Official Development Assistance

| | £ billion | |
|--------------------|-----------|---------|
| | 2014-15 | 2015-16 |
| Total UK ODA | 11.7 | 12.2 |
| ODA/GNI (per cent) | 0.7 | 0.7 |

2.62 DFID priorities will include fostering economic growth to create jobs and boost incomes for the world's poorest, and improving the life chances and outcomes for women and girls through education and family planning.

2.63 The Government will maintain spending in fragile and conflict-affected states at the level of at least 30 per cent of UK ODA. In order to focus aid where it is needed most, the Government will continue to close programmes in middle-income countries such as India and South Africa.

2.64 The Government will maintain its effort on urgent action to tackle climate change by supporting low-carbon growth and adaptation in developing countries. The UK's pool of money for climate change projects in developing countries will be increased to £969 million, funded by DFID, the Department of Energy and Climate Change (DECC) and the Department for Environment, Food and Rural Affairs (DEFRA).

Efficiency

2.65 DFID will continue to change the way it delivers in order to achieve maximum impact with the aid the UK provides. The Government will save £115 million from DFID commercial contracts, procurement, workforce and IT costs.

2.66 The Government will also spend more ODA in areas where the UK has world-leading expertise such as science and research, and strengthening tax collection.

Department of Energy and Climate Change

Table 2.14: Department for Energy and Climate Change

| | £ billion | |
|---------------------------|------------|------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 1.0 | 1.0 |
| Capital DEL | 2.2 | 2.3 |
| Total DEL | 3.3 | 3.3 |

¹ In this table, Resource DEL excludes depreciation.

2.67 The Department of Energy and Climate Change (DECC) settlement includes:

- **capital provision for investment in innovative energy projects and £5.3 billion funded through energy bills, to enable investment in renewable energy and other projects, and to address fuel poverty; and**
- **funding of up to £430 million for the Renewable Heat Incentive, with proposed new tariffs and a higher budget cap to encourage increased take up.**

Growth

2.68 The Government has set out its plans for comprehensive reform of the electricity market and is currently legislating through the Energy Bill to bring these into force. This is supported by a commitment to provide up to £7.6 billion (in 2012 prices) in support for low-carbon generation by 2020-21. In 2015-16, the Government will provide £5.3 billion through the Levy Control Framework, which will include funding for low-carbon energy generation projects. This will support the development of the UK manufacturing supply chain and provide incentives for investment in this sector.

2.69 The Government remains committed to investing in low-carbon energy projects. Further details will be set out in *Investing in Britain's Future*.

Efficiency

2.70 DECC will deliver £83 million of resource savings in 2015-16, largely through efficiencies. This will enable the Department to maintain its policy objectives of ensuring the UK has secure, clean, affordable energy supplies, and promoting international action to mitigate climate change. Several major projects and programmes, such as Electricity Market Reform and the Green Deal, will have been implemented by 2015-16 allowing for a reduction in the levels of resource required. Efficiencies will also be delivered through savings from better deals on DECC contracts, moving to new cross-Whitehall shared service provision, replacing IT systems, and a reduction in the costs of ALBs such as the Coal Authority and the Nuclear Decommissioning Authority.

Fairness

2.71 The Warm Home Discount will be continued in 2015-16. It will provide £320 million for discounts on electricity bills to the least well-off pensioners and other vulnerable households. This is part of a wider package of measures to take action to address the cost of living.

Department for Environment, Food and Rural Affairs

Table 2.15: Department for Environment, Food and Rural Affairs

| | £ billion | |
|---------------------------|------------|------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 1.7 | 1.6 |
| Capital DEL | 0.5 | 0.5 |
| Total DEL | 2.2 | 2.0 |

¹ In this table, Resource DEL excludes depreciation.

2.72 The Department for Environment, Food and Rural Affairs (DEFRA) settlement includes:

- support for flood defences, with resource spending maintained in cash terms; and
- a focus on greater efficiency through coordination across the Department's ALBs, reducing fines payable to the EU for disallowance, and prioritising spending on economically high-value areas.

Growth

2.73 Public investment in existing flood protection and new schemes will support the insurance industry to maintain available and affordable flood cover for households. Resource spending will remain at current levels in cash terms. The Government is also committed to providing the necessary capital investment to strengthen flood defences. Further details will be set out in *Investing in Britain's Future*.

2.74 The Government is increasing the funding available to South West Water to £40 million in 2015-16 to enable them to continue to reduce their customers' bills by £50 per year. Water bills in the South West are significantly higher than the national average and the funding will ensure that household bills remain affordable and fair.

Efficiency

2.75 DEFRA will save £54 million in 2015-16 through better joint working between the Department's delivery bodies under the Strategic Alignment programme, removing duplication in back office functions so that it is better able to meet customer needs.

Department for Culture, Media and Sport

Table 2.16: Department for Culture, Media and Sport

| | £ billion | |
|---------------------------|------------|------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 1.2 | 1.1 |
| Capital DEL | 0.3 | 0.1 |
| Total DEL | 1.4 | 1.2 |

¹In this table, Resource DEL excludes depreciation.

2.76 The Department for Culture, Media and Sport (DCMS) settlement includes:

- **new operational freedoms for national museums and funding reductions limited to 5 per cent for museums, the arts and community sport, recognising the economic and social importance of these sectors;**
- **work with English Heritage to consult on establishing a charity to care for the historic properties in the National Heritage Collection on a self-financing basis, supported by government investment of £80 million;**
- **support for minority language broadcasting – maintaining S4C funding and investing in BBC Alba; and**
- **continued funding for elite athletes at planned levels in the run up to Rio 2016, building on the success of the 2012 Olympic and Paralympic Games.**

Growth

2.77 The Government will continue to invest in superfast broadband and clearing high-value spectrum to support the growth in demand for next generation mobile services. Further details will be set out in *Investing in Britain's Future*.

2.78 In response to the growth in e-lending in public libraries and the recommendations of the Sieghart Review, the Government will consult on plans to extend the Public Lending Right scheme to cover on-site borrowing of e-books and audiobooks with effect from July 2014.⁷

Service Reform

2.79 The UK's national museums hold uniquely important collections and make a key economic and social contribution. The Spending Round limits reductions to national museum funding to 5 per cent and maintains the Government's commitment to free entry. The Government has also announced a four-year pilot of new operational freedoms to help the sector continue to thrive and to increase self-generated income. This will enable national museums to take independent decisions on issues such as pay and procurement, and to access finance to unlock new projects, commercial revenues and philanthropic donations.

⁷An Independent Review of E-Lending in Public Libraries in England, William Sieghart, March 2013.

Department for Work and Pensions

Table 2.17: Department for Work and Pensions

| | £ billion | |
|---------------------------|------------|------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 5.5 | 5.0 |
| Capital DEL | 0.2 | 0.2 |
| Total DEL | 5.7 | 5.2 |

¹ In this table, Resource DEL excludes depreciation. DWP's settlement includes £0.9 billion of additional non-baselined funding in 2015-16 for the implementation of major reform programmes and some volume based employment activity.

2.80 The Department for Work and Pensions (DWP) settlement includes:

- **£530 million in 2015-16 to fund the implementation of key welfare reforms including the Personal Independence Payment, Universal Credit and changes to the State Pension;**
- **funding to maintain the Jobcentre Plus regime and increase significantly the support and requirements placed on claimants of out-of-work benefits;**
- **funding for measures to reduce fraud and error within the benefit system and improve DWP's debt recovery operations; and**
- **substantial efficiency savings amounting to £420 million.**

Service Reform

2.81 The Government is committed to creating a fairer, more affordable welfare system that helps to get people into work and supports people in retirement. Funding in 2015-16 will include at least £300 million for Universal Credit which will replace the complex system of means-tested benefits and tax credits with a simpler system focused on improving work incentives, and funding to maintain the Jobcentre Plus regime.

2.82 The Government is announcing a significant reform package that increases the support for and requirements on those out of work. This includes requiring claimants to do more at the start of their claim; some claimants waiting longer before being eligible for financial support; introducing weekly signing for around half of all job seekers, combined with quarterly restart interviews for all job seekers; expecting claimants whose spoken English is a barrier to work to improve their language skills, with sanctions for those who fail to attend mandatory courses; requiring all claimants who are subject to conditionality to verify their claim each year; and expecting lone parents to prepare for work when their youngest child turns three.

2.83 The Government will test different approaches to supporting Employment and Support Allowance (ESA) claimants in the Work Related Activity Group to move closer to work, including through engagement with healthcare professionals. The Government will consider how to best support young unemployed people in 2015-16 to bring together an evidence-based effective offer for this group. Details will be announced in due course.

Fairness

2.84 £350 million has been allocated for spending on programmes and support for people with a disability or long term health condition to move into and stay in work. The Government will consider how best to allocate this alongside work on the disability employment strategy due to be published later this year.

2.85 The settlement contains provision for the delivery of the single-tier state pension, announced at Budget 2013. This reform will simplify the current complicated arrangements into a single flat-rate amount from 2016, set above the standard minimum guarantee in Pension

Credit. This will help to ensure that those of working age will be able to save for their retirement with confidence.

Efficiency

2.86 The Department will make substantial efficiency savings in 2015-16 totalling £420 million. This will include over £100 million efficiency savings from IT by bringing some services in-house and working more effectively with contractors; and over £100 million from other contracts through better use of the Government's buying power as a consumer of goods and services. The Department has already delivered significant efficiencies through plans to modernise delivery and improve the productivity of its workforce. The work will continue in 2015-16, delivering further savings.

Devolved Administrations

Table 2.18: Devolved Administrations

| | £ billion | |
|-----------------------------|-------------|-------------|
| | 2014-15 | 2015-16 |
| Scotland | | |
| Resource DEL ^{1,2} | 25.6 | 25.7 |
| Capital DEL ³ | 2.8 | 3.0 |
| Total DEL | 28.4 | 28.6 |
| Wales | | |
| Resource DEL | 13.6 | 13.6 |
| Capital DEL | 1.4 | 1.5 |
| Total DEL | 15.1 | 15.1 |
| Northern Ireland | | |
| Resource DEL ⁴ | 9.6 | 9.6 |
| Capital DEL | 1.0 | 1.1 |
| Total DEL | 10.6 | 10.7 |

¹ In this table, Resource DEL excludes depreciation.

² Scottish Government RDEL will be adjusted to take account of devolved taxes in 2015-16 once the two Governments have agreed an adjustment mechanism.

³ Does not include new Scottish capital borrowing powers of £296m.

⁴ Northern Ireland Executive RDEL adjusted to take account of devolved air passenger duty.

2.87 The Devolved Administrations' (DAs) settlements include:

- a real terms increase in capital spending power for the Scottish Government, Welsh Government and Northern Ireland Executive;
- work to finalise the Government's response to the Silk Commission report on fiscal devolution and to explore with the Welsh Government how this can help to support a funding solution for the M4 improvement scheme in south Wales;
- £31 million for the Police Service of Northern Ireland (PSNI) in addition to their core funding to strengthen the PSNI's counter-terrorism capabilities;
- an additional £100 million of capital borrowing for the Northern Ireland Executive over two years in 2014-15 and 2015-16 to fund shared future projects in housing and education; and
- £296 million of capital borrowing powers for the Scottish Government in 2015-16 through the ongoing implementation of the Scotland Act 2012.

Fairness

2.88 The budgets of the devolved administrations have been determined by the Barnett formula in the normal way. The devolved administrations are free to allocate their budgets in line with local needs and priorities, and have their own programmes of reform and efficiency. Full details of the Barnett formula and the comparability factors used in determining allocations can be found in the Statement of Funding Policy, published in 2010.⁸

2.89 Following the commitment made in the Joint Statement on Welsh Funding in October 2012, the UK and Welsh Governments have conducted a review of Welsh per head funding relative to England in 2015-16.⁹ Following that review, both Governments have agreed that convergence will not occur over the course of this Parliament. A further assessment will take place in advance of the next formal spending review.

2.90 After careful consideration of the Silk Commission's first report on fiscal devolution to Wales, the Government recognises that the Welsh Assembly's financial accountability and autonomy would be enhanced if it was funded through a combination of block grant and self-financing. The Government will now finalise its detailed response, and explore with the Welsh Government how this can help to support a funding solution for the M4 improvement scheme in south Wales.

Service Reform

2.91 In addition to the Barnett consequentials, the UK Government has agreed to provide:

- an additional £31 million for the PSNI. This funding will help ensure the PSNI is equipped to meet the challenges of policing the ongoing terrorist threat in Northern Ireland. This represents an increase on the funding provided in 2014-15; and
- a £50 million temporary increase to the Northern Ireland Executive's Reinvestment and Reform Initiative (RRI) capital borrowing limit in both 2014-15 and 2015-16 to support the Executive's work on building a shared future in Northern Ireland. The additional £100 million will be made available to support specific projects in housing and education which the Executive will identify. This agreement formed part of the economic package announced by the Prime Minister on 14 June 2013.

2.92 In 2015-16 the ongoing implementation of the Scotland Act 2012 will provide the Scottish Government with new capital borrowing powers and see Stamp Duty Land Tax and Landfill Tax devolved. As a result of the Scottish Government's settlement, these capital borrowing powers will be £296 million in 2015-16. This means that in total, Scottish Government capital spending will increase by almost 13 per cent in real terms in 2015-16.

2.93 These powers will increase the Scottish Government's investment flexibility and will enable the Scottish Parliament to legislate to introduce Scotland-specific taxes on land and building transactions, and on disposals to landfill. A Scottish rate of income tax will be introduced in 2016-17, with the Scottish rate remaining within the UK's income tax structure but being set annually by the Scottish Parliament.

2.94 The Government has agreed to reform the Housing Revenue Account Subsidy (HRAS) system in Wales to give Welsh local authorities the financial flexibility they need to manage their own housing revenue. Details of the reform will be set out in due course, subject to a suitable legislative vehicle being identified.

2.95 The Scotland, Wales and Northern Ireland Offices will see their resource budgets reduced by 10 per cent in real terms.

⁸ *Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy*, October 2010, available at www.gov.uk.

⁹ *Joint Statement on funding reform*, available at www.gov.uk.

HM Revenue and Customs

Table 2.19: HM Revenue and Customs

| | £ billion | |
|---------------------------|------------|------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 3.2 | 3.1 |
| Capital DEL | 0.1 | 0.1 |
| Total DEL | 3.4 | 3.3 |

¹ In this table, Resource DEL excludes depreciation.

2.96 HM Revenue & Customs' (HMRC) settlement includes:

- a further increase in HMRC's target for additional revenues, including from tackling avoidance and evasion, to a total of £24.5 billion in 2015-16, £1 billion more than in 2014-15 and £10 billion more than in 2010-11; and
- a contribution to deficit reduction through the collection of an additional £95 million in tax credit debt on an innovative payment by results funding basis.

Fairness

2.97 HMRC will continue to focus resources on frontline tax collection and tackling tax avoidance, evasion, fraud and debt. HMRC's target for the extra tax revenue brought in by their actions to ensure people and businesses pay the right amount of tax, including by tackling avoidance and evasion, will be increased from £23.5 billion in 2014-15 to £24.5 billion in 2015-16. HMRC will collect £10 billion more in compliance revenues in 2015-16 than in 2010-11. This includes continuing work to identify and challenge transfer pricing arrangements and strengthening risk assessment capability across the large business sector.

2.98 The Government remains committed to ensuring that everyone receives the correct benefits to which they are entitled, and to reducing tax credits error, fraud and debt. HMRC will collect an additional £95 million of tax credit debt over the next two years, including £80 million of AME savings, by paying debt collection agencies to collect additional tax credit debt. Payments to the agencies will depend on results.

Efficiency

2.99 HMRC will deliver more than £130 million of efficiency savings in 2015-16 through improved productivity and further digital transformation, reducing inefficient manual processing and dealing with error.

HM Treasury

Table 2.20: HM Treasury

| | £ billion | |
|---------------------------|------------|------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 0.1 | 0.1 |
| Capital DEL | 0.0 | 0.0 |
| Total DEL | 0.1 | 0.1 |

¹ In this table, Resource DEL excludes depreciation.

2.100 The HM Treasury settlement includes:

- funding to ensure the Treasury can continue to manage the process of deficit reduction and support the economic recovery; and
- efficiency savings, including from pay restraint, IT contract renegotiations and more flexible working.

Growth

2.101 The Treasury will continue to lead the Government's work on deficit reduction, securing economic growth, and reforming regulation of the financial sector. Flexible use of resources will ensure the Department continues to fulfil its role as an efficient and effective economic and finance ministry, focused on its core functions.

2.102 The Treasury will continue to manage the UK Guarantees scheme which was put in place to help provide access to debt finance for infrastructure projects. Over 25 projects have been prequalified for the scheme, which is being extended to projects that are due to reach financial close by 2016. These investments will contribute to UK employment, economic activity and trade in 2015-16 and beyond.

Efficiency

2.103 The Treasury will deliver savings through maximising sources of revenue, including rental income from sharing accommodation, flexible working, and sharing IT provision with other departments.

Cabinet Office

Table 2.21: Cabinet Office

| | £ billion | |
|---------------------------|------------|------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 0.4 | 0.3 |
| Capital DEL | 0.0 | 0.0 |
| Total DEL | 0.4 | 0.3 |

¹ In this table, Resource DEL excludes depreciation.

2.104 The Cabinet Office settlement includes:

- **continued funding of £56 million to support Government programmes which encourage social action and help Voluntary, Community and Social Enterprise (VCSE) organisations play a bigger role in communities and public services;**
- **funding to support the continued growth of the National Citizen Service from 90,000 places in 2014, with targets of 120,000 places in 2015 and 150,000 places in 2016;**
- **£148 million to fund the 2015 General Election, the Parliamentary Boundary Review and continued support for Individual Electoral Registration arrangements; and**
- **efficiency savings within the core department, including through pay restraint, a reduction in IT running costs and completion of the Department's estate consolidation programme.**

Efficiency

2.105 The Cabinet Office Efficiency and Reform Group will continue to drive the efficiency agenda across government. This will include work to coordinate the rationalisation of the government estate and to move public services online, reducing the cost and making it faster and easier for the public to deal with government.

Fairness

2.106 The National Citizen Service programme is open to young people from all economic and social backgrounds, with additional support provided to ensure that young people from disadvantaged backgrounds can access the programme. The expansion of the programme in

2015-16 will ensure that even more young people will benefit from participation. By maintaining expenditure on wider Cabinet Office civil society programmes, the Government will continue to support the development of the social investment and social action agendas, strengthening those charities and social enterprises that assist the most vulnerable in society.

Single Intelligence Account

Table 2.22: Single Intelligence Account

| | £ billion | |
|---------------------------|------------|------------|
| | 2014-15 | 2015-16 |
| Resource DEL ¹ | 1.6 | 1.7 |
| Capital DEL | 0.3 | 0.3 |
| Total DEL | 1.9 | 2.0 |

¹ In this table, Resource DEL excludes depreciation.

2.107 The Single Intelligence Account (SIA) settlement includes:

- a real terms increase in funding for the security and intelligence agencies to achieve key national security priorities, maintain core counter terrorist capabilities, and protect UK citizens and interests against terrorism threats; and
- an ongoing efficiencies package to enable the agencies to operate more effectively and to encourage further collaboration between the three agencies, building on work in the current Spending Review period.

Box 2.D: Cyber Security

Cyber security is a national security priority for the UK. Investment in this area will continue to grow in 2015-16. This will include £210 million investment in the National Cyber Security Programme (NCSP).

This maintains the NCSP in cash terms and builds on existing cyber projects as well as funding new investment. This funding will be used to meet a range of cyber security priorities, including:

- further investment in the protection of UK interests in cyber space, making it harder for hostile states and criminals to target the UK;
- raising awareness of the cyber threat and how UK business and the general public can protect themselves against it; and
- further investment in the skills and standards needed to support a vibrant and internationally competitive UK cyber security sector.

This funding will be invested in a broad range of projects across government to deliver the UK’s cyber security objectives. The NCSP is run by the Cabinet Office and projects are delivered by several government departments, including the intelligence agencies, MOD, Home Office, HMRC, FCO, BIS and others.

Further detail on the Government’s cyber investment will be announced later in the year.

This will build on the £650 million funding for the NCSP in the current Spending Review period, which is generating significant benefit to the UK by increasing the UK’s capability to tackle cyber threats, turning cyber security into an economic opportunity, and establishing the UK as a leader in this field.

Small and Independent Bodies

Table 2.23: Small and Independent Bodies – Resource DEL excluding depreciation

| | £ million | |
|--|--------------|--------------|
| | 2014-15 | 2015-16 |
| Departmental Programme and Administration Budgets | | |
| Charity Commission | 21 | 20 |
| Export Credits Guarantee Department | 19 | 18 |
| Food Standards Agency | 94 | 86 |
| The National Archives | 30 | 29 |
| National Savings and Investments | 147 | 147 |
| Northern Ireland Office | 20 | 18 |
| Office of Fair Trading | 34 | 51 |
| Scotland Office and Office of the Advocate General | 7 | 6 |
| UK Statistical Authority | 144 | 147 |
| UK Supreme Court | 4 | 4 |
| UK Trade & Investment | 144 | 131 |
| Wales Office | 5 | 4 |
| Economic Regulators ¹ | Neg | Neg |
| Independent Bodies ² | 630 | 632 |
| Total | 1,298 | 1,294 |

¹ The Economic Regulators include: Government Actuary's Department (GAD), Office of Gas and Electricity Markets (Ofgem), Office of Rail Regulation (ORR) and the Water Services Regulation Authority. This is the first time that these bodies have been included in the Spending Round process.

² Independent Bodies include: Electoral Commission, House of Commons, House of Lords, Parliamentary and Health Service Ombudsman, Independent Parliamentary Standards Authority (IPSA), the Local Government Boundary Commission for England (LGBCE) and the National Audit Office (NAO). They are not formally subject to the Spending Round process and their plans reflect forecasted values.

2.108 Small and Independent Bodies' settlements include:

- **funding for National Savings and Investments, including to implement efficiency reforms that will deliver substantial savings in future years;**
- **increased funding for the Competition and Markets Authority to tackle cartels and anticompetitive behaviour, and work to effectively enforce competition law in the regulated sectors and financial services; and**
- **funding for the UK Statistics Authority to deliver a range of projects in 2015-16 so that official UK statistics are of the highest quality and continue to meet legislative requirements.**

2.109 The independent economic regulators include: the Office of Gas and Electricity Markets (Ofgem), the Office of Rail Regulation (ORR) and the Water Services Regulation Authority (Ofwat). The budgeting treatment applied to the regulators differs from other spending departments, and therefore they cannot deliver cash savings. However, in line with the Government's commitment to improving efficiency, the regulators have been asked to reduce their costs, with efficiency savings being passed directly to customers and businesses through lower charges.

2.110 Independent Bodies include the Electoral Commission, House of Commons, House of Lords, Parliamentary and Health Service Ombudsman, Independent Parliamentary Standards Authority (IPSA), the Local Government Boundary Commission for England (LGBCE) and the National Audit Office (NAO). These bodies do not form part of the Executive and are not formally subject to the Spending Round process. However, their spending is classified as public expenditure and so Table 2.23 reflects their forecast spending plans.

A

Statistical Annex

A.1 This annex provides further details of the projections of public expenditure that result from decisions made in the Spending Round. All projections for Annually Managed Expenditure (AME) are based on the Office for Budget Responsibility's (OBR) forecast for Budget 2013, adjusted for AME measures in the Spending Round.

A.2 Table 1.1 sets out the composition of Total Managed Expenditure (TME) over the forecast period. TME is the totality of public sector spending; the difference between TME and current receipts is Public Sector Net Borrowing (PSNB). Table 1.1 also shows the current and capital envelopes for the Spending Round and how these break down into Resource Departmental Expenditure Limits (DEL), Resource AME, Capital DEL and Capital AME as a result of decisions in the Spending Round.

A.3 TME comprises Public Sector Current Expenditure (PSCE) and Public Sector Gross Investment (PSGI). The difference between PSCE and current receipts is the current deficit. The structural element of this (the part that is not the result of variations in the economic cycle) is the primary measure in the Government's fiscal mandate.¹

A.4 In the spending framework inherited by this Government, spending is broken down into DEL and AME. Fixed DEL budgets are set for each department for a multi-year period. Spending that is considered difficult to control within fixed budgets due to its size or volatility is categorised as AME. Budgets are separated into capital, which generally equates to spending that scores within PSGI, and resource, generally within PSCE.

A.5 Accounting adjustments reconcile DEL and AME budgets with the National Accounts definitions of PSCE, PSGI and TME. An explanation of these adjustments is provided at Annex D of the Public Expenditure Statistical Analyses 2012 (PESA). The accounting adjustments have changed since Budget 2013 as a result of an increase in depreciation in Resource DEL and financial transactions in Capital DEL. This increase does not affect PSCE or PSGI and an offsetting reduction is therefore made in accounting adjustments.

A.6 There are a number of items in DEL and AME that are classified as negative expenditure. These include receipts from the provision of goods and services or the sale of assets, as well as items such as pension contributions. For certain departments, the balance of negative public expenditure scoring to AME outweighs expenditure, resulting in a negative AME total.

¹ The primary fiscal mandate is to achieve a cyclically-adjusted current balance by the end of the rolling, five-year forecast period, currently 2017-18.

A.7 Tables 1 and 2 set out Resource and Capital DEL by department. In Table 1 the 2014-15 DEL figures differ from departmental plans because the table shows RDEL baselines. As in all spending reviews, baselines for RDEL exclude one-off and time-limited expenditure, such as Reserve claims and Budget Exchange. The reversal of temporary adjustments provides a consistent starting point from which to conduct the Spending Round. Annual growth figures are calculated with reference to these 2014-15 baselines using the deflators set out in Table A.4. Spending plans for 2015-16 are based on the decisions set out in the Spending Round.

A.8 As part of the Alignment (“Clear Line of Sight”) project, resource expenditure within DEL now falls within a single RDEL budget, without separate near-cash and non-cash controls. However, a proportion of RDEL, in particular depreciation, is not currently used in measurement of the fiscal aggregates by the Office for National Statistics (ONS) and so does not directly impact on the Government’s fiscal mandate or on the level of PSND or PSNB. Table 1 setting out Programme and Administration Budgets therefore excludes depreciation. This effectively measures the spending in RDEL which directly contributes to the Government’s fiscal consolidation.

A.9 There are separate Resource and Capital Reserves in DEL, shown in Tables 1 and 2, which provide a contingency to meet any unforeseeable costs. There is also a Special Reserve allocation for military operations which takes account of the UK’s military commitments. This is not a fixed budget, and the Treasury remains committed to funding all the net additional costs of military operations in Afghanistan.

A.10 Table A.1 sets out RDEL including depreciation. Depreciation measures the reduction in value of assets over the course of a year. Departments calculate depreciation for RDEL budgets according to International Financial Reporting Standards (IFRS).

Table A.1: Resource DEL including depreciation¹

| | £ billion | |
|--|----------------------------------|-------------------------------|
| | Baseline ² 2014-15 | Plans ³ 2015-16 |
| Resource DEL | | |
| Education | 53.8 | 54.2 |
| NHS (Health) | 109.6 | 111.7 |
| Transport | 4.4 | 4.2 |
| DCLG Communities | 1.3 | 1.2 |
| DCLG Local Government ⁴ | 25.6 | 23.5 |
| Business, Innovation and Skills ⁵ | 17.0 | 17.7 |
| Home Office | 10.6 | 10.2 |
| Justice | 7.4 | 6.8 |
| Law Officers' Departments | 0.5 | 0.5 |
| Defence | 33.4 | 33.5 |
| Foreign and Commonwealth Office | 1.3 | 1.2 |
| International Development | 8.3 | 8.5 |
| Energy and Climate Change | 1.0 | 1.0 |
| Environment, Food and Rural Affairs | 1.9 | 1.7 |
| Culture, Media and Sport | 1.3 | 1.3 |
| Work and Pensions | 5.6 | 6.1 |
| Scotland | 26.4 | 26.7 |
| Wales | 14.1 | 14.3 |
| Northern Ireland | 10.1 | 10.2 |
| HM Revenue and Customs | 3.5 | 3.4 |
| HM Treasury | 0.1 | 0.1 |
| Cabinet Office | 0.4 | 0.3 |
| Single Intelligence Account | 2.1 | 2.2 |
| Small and Independent Bodies | 1.4 | 1.4 |
| Spending commitments not yet in budgets | – | 1.1 |
| Reserve | 2.8 | 2.8 |
| Special Reserve | 1.8 | 1.0 |
| <i>Localised business rates⁴</i> | <i>-11.2</i> | <i>-11.6</i> |
| Total Resource DEL including depreciation | 334.5 | 335.1 |

¹ Depreciation in Resource DEL is drawn from departmental resource accounts and follows International Financial Reporting Standards. This currently differs from depreciation estimates in the National Accounts, which is used in the calculation of Public Sector Current Expenditure (PSCE) by the Office for National Statistics and Office for Budget Responsibility.

² As at all spending reviews, baselines exclude one-off and time-limited expenditure.

³ Total RDEL including depreciation is higher than the implied total published at Budget 2013. This is because departments' depreciation budgets are higher than previously forecast. This does not affect the current spending envelope set at Budget 2013 because the OBR forecast is based on National Accounts depreciation.

⁴ Includes the OBR forecast for localised business rates that local authorities can now retain following changes to the local government finance system, but does not yet include the council tax freeze grants announced as part of the Spending Round.

⁵ Figures for BIS include the Resource and Budgeting charge for student loans, which is £2.9 billion in 2014-15 and £4.4 billion in 2015-16.

A.11 Table A.2 shows total DEL by department. Total DEL is the sum of Resource DEL (excluding depreciation) and Capital DEL.

Table A.2: Total Departmental Expenditure Limits

| | £ billion | |
|--|---|---------------|
| | Baseline and Plans ¹ 2014-15 | Plans 2015-16 |
| Total Departmental DEL | | |
| Education | 57.3 | 57.7 |
| NHS (Health) | 113.0 | 115.1 |
| Transport | 12.3 | 12.7 |
| DCLG Communities | 6.0 | 4.3 |
| DCLG Local Government ² | 25.6 | 23.5 |
| Business, Innovation and Skills | 15.7 | 15.5 |
| Home Office | 10.8 | 10.3 |
| Justice | 7.1 | 6.6 |
| Law Officers' Departments | 0.5 | 0.5 |
| Defence | 32.7 | 32.6 |
| Foreign and Commonwealth Office | 1.3 | 1.2 |
| International Development | 10.3 | 11.1 |
| Energy and Climate Change | 3.3 | 3.3 |
| Environment, Food and Rural Affairs | 2.2 | 2.0 |
| Culture, Media and Sport | 1.4 | 1.2 |
| Work and Pensions | 5.7 | 5.2 |
| DWP non-baselined funding | 1.9 | 0.9 |
| Scotland | 28.4 | 28.6 |
| Wales | 15.1 | 15.1 |
| Northern Ireland | 10.6 | 10.7 |
| HM Revenue and Customs | 3.4 | 3.3 |
| HM Treasury | 0.1 | 0.1 |
| Cabinet Office | 0.4 | 0.3 |
| Single Intelligence Account | 1.9 | 2.0 |
| Small and Independent Bodies | 1.4 | 1.4 |
| Green Investment Bank | 0.0 | 1.3 |
| Spending commitments not yet in budgets | - | 1.5 |
| Adjustment for Devolved Administration borrowing | 0.1 | 0.3 |
| Reserve | 3.7 | 3.3 |
| Special Reserve | 2.0 | 1.0 |
| Localised business rates ² | -11.2 | -11.6 |
| Total DEL³ | 363.0 | 361.2 |

¹ Total DEL in 2014-15 is the sum of RDEL excluding depreciation baselines for CDEL plans.

² Includes the OBR's forecast for localised business rates that local authorities can now retain following the changes to the Local Government finance system, but does not include the council tax freeze grants announced as part of this Spending Round.

³ The totals in this table do not match those in the TME table due to adjustments for allowance for shortfall, non-baselined spending and PSGI not in CDEL.

A.12 Table A.3 shows departmental administration budgets. Administration budgets limit expenditure on the running costs of central government which do not directly support the front line, for example, business support services, the provision of policy advice, accommodation and office services.

Table A.3: Administration budgets

| | £ million | |
|-------------------------------------|---------------|--------------|
| | 2014-15 | 2015-16 |
| Administration budgets | | |
| Education | 349 | 316 |
| NHS (Health) | 3,724 | 2,706 |
| Transport | 235 | 235 |
| DCLG Communities | 303 | 277 |
| Business, Innovation and Skills | 606 | 557 |
| Home Office | 498 | 402 |
| Justice | 523 | 479 |
| Law Officers' Departments | 47 | 47 |
| Defence | 1,866 | 1,766 |
| Foreign and Commonwealth Office | 178 | 163 |
| International Development | 94 | 95 |
| Energy and Climate Change | 173 | 175 |
| Environment, Food and Rural Affairs | 473 | 436 |
| Culture, Media and Sport | 142 | 138 |
| Work and Pensions | 1,073 | 855 |
| HM Revenue and Customs | 753 | 755 |
| HM Treasury | 115 | 106 |
| Cabinet Office | 162 | 115 |
| Single Intelligence Account | 60 | 61 |
| Total administration budgets | 11,374 | 9,684 |

A.13 To aid transparency, Table A.4 sets out the GDP deflators that underpin real terms calculations in this document. GDP deflator growth is the broadest measure of inflation in the domestic economy. It measures change in the overall level of prices for goods and services that make up GDP, including price movements in consumption, government spending, investment and trade. The deflators shown are consistent with the Budget 2013 forecast by the OBR (Economic and Fiscal Outlook, March 2013).

Table A.4: GDP deflator¹

| | Percentage change on previous year | | | | | | |
|--------------|------------------------------------|---------|----------|---------|---------|---------|---------|
| | Outturn | | Forecast | | | | |
| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2014-16 | 2015-17 |
| GDP deflator | 2.1 | 1.3 | 2.3 | 1.9 | 1.8 | 1.7 | 1.7 |

¹ Consistent with the OBR Economic and Fiscal Outlook March 2013 (Table 4.1)

List of Abbreviations

| | |
|-------|--|
| ALB | Arm's Length Body |
| AME | Annually Managed Expenditure |
| BIS | Department for Business, Innovation and Skills |
| CC | Competition Commission |
| CDEL | Capital Departmental Expenditure Limit |
| CJS | Criminal Justice System |
| CMA | Competition and Markets Authority |
| CO | Cabinet Office |
| CPI | Consumer Prices Index |
| CPS | Crown Prosecution Service |
| CSSF | Conflict, Stability and Security Fund |
| DA | Devolved Administration |
| DCLG | Department for Communities and Local Government |
| DCMS | Department for Culture, Media and Sport |
| DECC | Department of Energy and Climate Change |
| DEFRA | Department for Environment, Food and Rural Affairs |
| DEL | Departmental Expenditure Limit |
| DfE | Department for Education |
| DFID | Department for International Development |
| DfT | Department for Transport |
| DH | Department of Health |
| DWP | Department for Work and Pensions |
| ECGD | Export Credits Guarantee Department |
| ESA | Employment and Support Allowance |
| EU | European Union |
| FCO | Foreign Office |
| FDI | Foreign Direct Investment |
| FE | Further Education |
| FLS | Funding for Lending Scheme |
| G7 | A group of seven major industrial nations (comprising: Canada, France, Germany, Italy, Japan, UK and US) |
| G8 | A group of eight major industrial nations (comprising: Canada, France, Germany, Italy, Japan, Russia, UK and US) |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| HE | Higher Education |
| HEFCE | Higher Education Funding Council for England |
| HMRC | Her Majesty's Revenue & Customs |
| HMT | Her Majesty's Treasury |
| HO | Home Office |
| HRAS | Housing Revenue Account Subsidy |
| IMF | International Monetary Fund |
| IT | Information technology |

| | |
|--------|---|
| IUK | Infrastructure UK |
| JSA | Jobseeker's Allowance |
| LEP | Local Enterprise Partnership |
| LG | Local Government |
| LGA | Local Government Association |
| LIBOR | London Inter-Bank Offered Rate |
| LIF | Local Infrastructure Fund |
| LODs | Law Officers' Departments |
| MOD | Ministry of Defence |
| MOJ | Ministry of Justice |
| NATO | North Atlantic Treaty Organisation |
| NCSP | National Cyber Security Programme |
| NDPB | Non-Departmental Public Body |
| NGO | Non-Governmental Organisation |
| NHS | National Health Service |
| OBR | Office for Budget Responsibility |
| ODA | Official Development Assistance |
| OFGEM | Office of Gas and Electricity Markets |
| OFQUAL | Office of Qualifications and Examinations Regulation |
| OFSTED | Office for Standards in Education, Children's Services and Skills |
| OFT | Office of Fair Trading |
| OFWAT | The Water Services Regulation Authority |
| ONS | Office for National Statistics |
| ORR | Office of Rail Regulation |
| PAYE | Pay As You Earn |
| PSCE | Public Sector Current Expenditure |
| PSGI | Public Sector Gross Investment |
| PSNB | Public Sector Net Borrowing |
| PSND | Public Sector Net Debt |
| PSNI | Police Service of Northern Ireland |
| PWLB | Public Works Loan Board |
| QIPP | Quality, Innovation, Prevention and Productivity |
| RDEL | Resource Departmental Expenditure Limit |
| RGF | Regional Growth Fund |
| RPIF | Research Partnership Investment Fund |
| RRI | Reinvestment Reform Initiative |
| SABRE | Synergistic Air-Breathing Rocket Engine |
| SBRI | Small Business Research Initiative |
| SIA | Single Intelligence Account |
| SLGF | Single Local Growth Fund |
| SME | Small and medium-sized enterprise |
| TFL | Transport for London |
| TME | Total Managed Expenditure |
| TSB | Technology Strategy Board |
| UKTI | UK Trade and Investment |
| UKBA | UK Border Agency |
| VCSE | Voluntary, Community and Social Enterprise |

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