



## The Spending Review

November 2015

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## 1 Overview

Today the Chancellor of the Exchequer George Osborne MP delivered the Autumn Statement and Comprehensive Spending Review. Buoyed by good news from the Office for Budget Responsibility (OBR) regarding the country's future economic outlook, Osborne was able to announce that neither tax credits nor the policing budget would be cut.

A budget surplus by 2020, tax credit cuts avoided, the policing budget increased and the biggest housebuilding programme since the 1970s. So how did he do it? Is it a masterful balancing act or will there be a sting in the tail as the detail begins to emerge?

A difficult task at the best of times, this Autumn Statement was combined with a Spending Review in which the Chancellor needed to outline spending plans for £4 trillion of taxpayers' money over the next Parliament. His task was further complicated by the ring-fenced status of 70% of departmental spending and the need to honour manifesto commitments with the need to cut the deficit and secure a budget surplus of £10bn by 2020.



Fortunately for the Chancellor, and the nation, the OBR upgraded the UK's economic outlook for the years up to 2021. This upward revision was the result of higher than expected tax receipts and the continuation of low interest rates, reducing the cost of managing government debt. It was against this backdrop that Osborne set about trying to find £20bn worth of cuts from only 30% of the total departmental public sector spending that was left "unprotected"...

### **Analysis**

The detail of his review will be poured over in the coming days and weeks but on the face of things, Mr Osborne appears to have done a good job, especially bearing in mind the constraints of ring-fenced departmental budgets, and considering he managed to circumnavigate the issue of tax credits so resoundingly. It is inevitable that unpopular decisions will be made when the only lever at your disposal is to reduce public spending in lieu of raising taxes but the Chancellor appears to have managed the most contentious elements very well. Whilst specific measures may prove divisive, taken as a whole the Chancellor's Speech will be deemed a success, having set out the priorities of this Conservative majority Government clearly.

## **2 Headline announcements**

### **2.1 Tax credit cuts avoided**

Despite widespread expectations that Osborne would look to compromise and merely 'ease' the impact of proposed tax credit cuts, they were ruled out altogether. Osborne is rumoured to have faced staunch opposition to further cuts from senior members of his own party; most notably from the Work and Pensions Secretary Iain Duncan Smith and Home Secretary (and leadership hopeful) Theresa May.

### **2.2 £8bn for housebuilding announced**

The bold housing announcement will grab headlines and potentially distract attention from the cuts made elsewhere, however the Chancellor will need to improve his record of infrastructure delivery if this ambitious announcement is not to come back to haunt him.

### **2.3 Health budget increased**

The announcement of £20bn extra funding for the NHS by 2021 will reflect the power wielded by NHS England Chief Executive Simon Stevens and will also serve to take some of the sting out of



Labour's attacks on the back of the annual A&E winter crisis. The extra money will be used to help plug the NHS funding black hole identified by Stevens, and amongst a number of other measures, will support delivery of another Conservative Manifesto commitment; the creation of a 7 day NHS.

## 2.4 Police budget protected

Following expectation from many (including [us](#)) that Policing budgets would be cut, the Chancellor noted pressure from Labour and confirmed that they would be protected in real terms. Osborne confirmed that the counter-terrorism budget would be increased by 30% and further investment in border security would be made.

## 2.5 Economic forecast

The Office for Budget Responsibility (OBR) forecast remains unchanged since its last forecast in July, OBR predicts growth for the economy in 2015 at 2.4%. However, the forecast has been revised higher in 2016 and 2017 by 0.1 percentage points in each year, meaning economic growth will be 2.4% and 2.5% in 2016 and 2017 respectively.

# 3 The Opposition's Response

In what is easily one of the most difficult jobs in politics, the Shadow Chancellor's response included accusations of betrayal in light of Osborne's broken promise to have already eliminated the deficit. McDonnell highlighted the difference between just making policy announcements and actually delivering on them and focused on Osborne's poor record of delivery and series of 'U-turns' on tax credits and the policing budget. The headlines on McDonnell's response will focus on his use of Mao's 'Little Red Book' to offer the Chancellor some sage advice. McDonnell attacked Osborne for his aggressive support for a peculiar form of 'nationalisation' that excludes the British public, but sanctions Chinese ownership of our infrastructure. McDonnell also quipped that Osborne had already shown himself willing to sell the family silver, but had now moved on to selling the furniture, fixtures and fittings...

McDonnell's performance was by no means Oscar winning but was an improvement on his last "embarrassing" budget response; and his performance should at least avoid categorisation as the second Westminster-based [car crash](#) of the day.



## 4 Sectors to watch

### 4.1 Technology

The Spending Review can be seen as positive for the tech sector, with better than expected forecast making investments in R&D, science funding, and infrastructure possible. The Chancellor has pledged to protect the overall science budget, with extra money for the Catapult schemes (which fund innovative UK firms). Osborne further announced plans to explore a 'broadband investment fund' to pay for broadband rollout. The other major announcements are listed below.

The Government will:

- Spend £550 million on increasing mobile spectrum.
- Create a Digital Transformation Plan to help the UK feel the benefits of new digital infrastructure.
- Continue to move public services online, Osborne has pledged £450 million for the Government Digital Service and announced plans to move passport applications online, open up government data-sets, set up digital tax accounts and also a GOV.UK Pay payment platform.
- Spend £1.9 billion on improving the UK's cyber-security. Including a new 'National Cyber Centre' and two new innovation centres to help UK cyber-security firms grow and develop skills.

### 4.2 Health

Health spending featured prominently in the Spending Review with most of the key announcements having been pre-announced on Monday. The most headline grabbing announcement was the confirmation that Department of Health spending (including the NHS) will increase from £112.9 billion in 2015-16 to £129.6 billion in 2020-21.

Additionally, the Chancellor stated that health and social care will be fully integrated across England by 2010. He announced that local authorities which are responsible for social care will be able to levy a new social care precept of up to two per cent on council tax. This would have to be sent exclusively on adult social care, with Osborne estimating that it will bring approximately £2 billion more into the care system. The other major announcements are listed below.

The Government will:

- Provide the NHS with an extra £10 billion a year by 2020-21, with an extra £6 billion a year available next year.
- Expect the NHS to deliver the £22 billion of efficiency savings that were set out in the Five Year Forward View.
- Provide the Department of Health with an extra £4.8bn in capital funding in every year.



- Invest an extra £600 million in mental health.
- Spend £300 million more on cancer diagnostics every year by 2020/21.
- Increase The Better Care Fund, with local authorities having access to £1.9 billion extra by 2019/20.
- Invest £10 million extra to expand the Healthcare Innovation Test Bed programme.
- Fund a new £1 billion Ross Fund, partnered by the Bill and Melinda Gates Foundation, to invest in the research and development of drugs, vaccines, diagnostics and treatments which will combat the most infectious diseases.

### 4.3 Energy

Ahead of the forthcoming Paris Climate Change Conference, the Chancellor announced that the Department of Energy and Climate Change budget will be cut by 22% by 2019-20. The Government's priorities in the energy 'trilemma' (affordability, security and sustainability) are now firmly on affordability (especially reducing household energy bills) and security of supply. The most eye-catching announcement was the claim that the Government's package of measures is projected to reduce the cost of green policies on the average annual household energy bill by £30 from 2017. The other major announcements are listed below.

The Government will:

- Invest at least £250 million over the next 5 years in a nuclear research and development programme.
- Exempt energy intensive industries from the policy costs of the Renewables Obligation and Feed-in Tariffs
- Increase funding for the Renewable Heat Incentive to £1.15 billion by 2020-21 while reforming the scheme to "deliver better value for money".
- Commit up to 10% of shale gas revenues to a Shale Wealth Fund which will deliver investment in local communities hosting shale gas developments.

The final findings of the Competition and Market Authority's investigation into the energy market will be the development to watch next year. The Spending Review document outlined the Government's readiness "to take action as necessary to increase competition" once these findings are published.

### 4.4 Transport

The Government reiterated its commitment to transport infrastructure, especially HS2, with the Spending Review offering yet another opportunity for the Chancellor to burnish his 'George the Builder' credentials. Osborne announced that capital funding of infrastructure projects will rise by



50% and the Department for Transport will be cut by 37% by 2020-21 with spending falling from £2.6 billion in 2015-16 to £1.8 billion in 2019-20. The other major announcements are listed below.

The Government will:

- Publish a National Infrastructure Delivery Plan next spring, setting out in detail how it will deliver key projects and programmes over the next 5 years.
- Invest £61 billion in transport this Parliament an increase of £20 billion compared to the previous Parliament.
- Press ahead with construction of HS2 beginning this Parliament.
- Publish a second Roads Investment Strategy before the end of this Parliament setting out how the Roads Fund (paid for by the revenues of Vehicle Excise Duty) will be invested.
- Spend £250 million over the next 5 years to tackle the potholes on local roads.
- Freeze regulated rail fares at no more than inflation for the entire Parliament and ensure better access to compensation when trains are late.
- Invest £475 over 5 years to fund local transport projects.
- Spend £300 million over the next 5 years for a new Transport Development Fund for 'next generation' transport infrastructure projects.

## 5 Political Intelligence

For further information on the 2015 Spending Review, or if you'd like to discuss your current plans for this Parliament and ways in which Political Intelligence could support your organisation in your public affairs activity, then please contact us on 020 3397 3300 or contact our Group Managing Director [Nicholas Lansman](#) for further information.